

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2012

FISCAL YEAR ENDED
JUNE 30, 2012

EMPLOYEES' RETIREMENT AND OTHER POST EMPLOYMENT BENEFIT FUNDS

CITY OF NEWPORT NEWS, VIRGINIA



Comprehensive Annual Financial Report

The Newport News Employees' Retirement and Other Post Employment Benefits Fund

Pension Trust Funds of the
City of Newport News, Virginia

For the fiscal years ended June 30, 2012 and 2011

The Newport News Employees' Retirement and Other Post Employment Benefits Fund

Pension Trust Funds of the
City of Newport News, Virginia

Comprehensive Annual Financial Report

For the fiscal years ended June 30, 2012 and 2011

Prepared by the Department of Finance
2400 Washington Ave
Newport News, VA 23607

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

Table of Contents

Page

Introductory Section (unaudited)

Letter of Transmittal	i-vi
City Government Officials	vii
Board of Trustees	viii
Committee on Investments.....	ix
Investment Managers	x
Administrative Organization	xi
Organizational Chart	xii
GFOA Certificate of Excellence in Financial Reporting.....	xiii

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Financial Statements:	
Statements of Plan Net Assets - Retirement	10
Statements of Changes in Plan Net Assets - Retirement	11
Statements of Plan Net Assets - OPEB.....	12
Statements of Changes in Plan Net Assets - OPEB	13
Notes to Financial Statements	14-23
Required Supplementary Actuarial Information:	
Schedule of Funding Progress (Unaudited)	24
Schedule of Employer Contributions (Unaudited)	25
Other Supplementary Information	
Schedule of Administrative Expenses.....	26
Schedule of Investment Expenses	27

Investment Section (unaudited)

Report on Investment Activity	28-29
Investment Performance, Policy, Statistics and Activity.....	30
Asset Allocation by Asset Class - Retirement.....	31
Investment Managers and Investment Assignments - Retirement	32-35
Schedule of Broker Fees and Commissions - Retirement	36
Schedule of Investment Results	37
Top Ten Equity Holdings.....	38
Summary of Investments	39
Asset Allocation by Asset Class - OPEB	40
Investment Managers and Investment Assignments - OPEB.....	41

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

Table of Contents

Schedule of Broker Fees and Commissions - OPEB.....	42
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Actuarial Section (unaudited)

Certification of Actuarial Valuation.....	43-44
Summary of Actuarial Assumptions and Methods - Retirement	45-50
Summary of Actuarial Assumptions and Methods - Post-Retirement.....	51-57
Participant Data for Retirement.....	58-59
Participant Data for Post-Retirement	60-61
Summary of NNERF Provisions.....	62-65
Summary of Post-Retirement Benefit Provisions	66-69
The Solvency Test – NNERF	70-71
The Solvency Test – Post-Retirement Benefit Fund.....	72-73
Analysis of Financial Experience	74

Statistical Section (unaudited)

Statistical Description.....	75
History of Membership	76
Changes in Net Assets	77
Benefit Deductions from Net Assets by Type	78
Retired Members by Type of Fringe Benefit.....	79
Average Fringe Benefit Payments	80



City of Newport News
Employees' Retirement Fund

LETTER OF TRANSMITTAL

November 22, 2012

The Honorable City Council
City of Newport News
Newport News, Virginia

The Honorable City Council:

The Board of Trustees of the Newport News Employees' Retirement Fund (the Board, the Retirement Board, or Trustees) is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Newport News' Employees' Retirement and Other Post Employment Benefit Fund (NNERF, or the Plan) for the fiscal year ended June 30, 2012.

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, conducted the audit of the Plan's financial statements for the year ended June 30, 2012, and have issued an unqualified ("clean") opinion on those statements. The independent auditor's report is located at the front of the Financial Section.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is intended to provide a profile of the Plan and summary information about its economic condition, and is intended to complement the MD&A which should be read in conjunction.

Profile of the Funds

The NNERF is a single employer, defined benefit, public employee retirement system established and administered by the City of Newport News (the City) to provide pension benefits for employees of the local government, including the non-professional employees of the Newport News School System (Schools). The Plan also provides other post employment benefits (OPEB) for retirees. For school teachers and administrative support personnel employed by Schools, the Plan provides a supplement to their benefits under the Virginia Retirement System. The Plan closed to new entrants as of July 1, 2009 for Schools and March 1, 2010 for the City.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

NNERF is comprised of two trust funds which are part of the City's financial reporting entity and are included in the financial statements of the City as a fiduciary fund type. The Plan maintains one fund for pension benefits and a separate fund for other post retirement benefits. All full-time regular employees hired before July 1, 2009 for Schools and before March 1, 2010 for the City are members of the Plan. For the year ended June 30, 2012, the total payroll of the City and Schools was approximately \$338.3 million, of which approximately \$248.5 million (or 74 %) was paid to NNERF participants.

Benefits and Services Provided

NNERF provides normal service retirement, early service retirement, and other retiree benefits such as health, dental, vision and life insurance and disability income. Members are vested after five years of credited service and are eligible for benefits at their early or normal service retirement date. The benefit provisions of the Plan are defined in Chapter 31 of the City code.

Benefit statements are provided to all active members each year. An information session is held with each new benefit applicant to explain plan provisions, provide retirement income projections and assist with retirement planning.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

Administration of the Plan

The nine voting members of the Retirement Board oversee the operation of the Pension and OPEB Funds. Four members are appointed by City Council and five members are elected by and from among the employees of the City and Schools. The elected members serve staggered five year terms. The appointed members serve two year terms and are eligible to serve four consecutive two year terms. The Director of Finance is the ex-officio secretary of the Board and the administrative head of the Funds. The City Treasurer is the ex-officio treasurer of the Funds. Advisors to the Board are the City Attorney, the City Internal Auditor, and a retiree appointed by City Council.

The Investment Committee is a sub-committee of the Board and oversees the investments of both Funds (Pension and OPEB) and makes recommendations to the Board regarding asset allocation, actuarial assumptions, professional advisors and other Fund related matters. The committee consists of six members nominated by the Board and appointed by City Council, plus the City Manager/designee. Two of the six must be members of the Retirement Board, and all must be recognized as experienced in financial matters. The City Manager/designee and two committee members from the Board are appointed annually; the remaining four may serve up to four, two year terms.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

Accounting System and Internal Control

Financial statements included in this report are the responsibility of NNERF's management and have been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used to record assets, liabilities, and net assets, as well as additions (revenue) and deductions (expenses). Additions are recorded when earned regardless of the date of collection. Deductions are recorded when liabilities are incurred regardless of when payment is made.

The Board believes that the Plan's accounting system provides adequate internal controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safekeeping of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of those costs and benefits requires estimates and judgments by management.

Funding Status-Pension

A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The NNERF funding objective is to meet benefit payments through annual employer contributions that are sufficient to fully fund the Plan over the long term. The advantage of a well funded plan is that participants are confident that assets are available to provide for the payment of their current and future benefits. Although the Plan is closed to new entrants, it is expected that the Plan will remain in existence to pay retirement benefits for at least another sixty five years.

The most recent actuarial valuation for the NNERF was performed using payroll data as of June 30, 2012 (see Actuarial Section). The funded status of the Pension Fund improved to 58% at June 30, 2012 (fiscal 2012) from 56% at June 30, 2011 (fiscal 2011).

In 2010, the City committed to an eight year funding plan for NNERF which provides that the City will contribute an increasing percentage of the Actuarially Required Contribution (ARC) each year, so that in fiscal 2017 and beyond, the contribution to the Pension Fund will be at least 100% of the ARC. In fiscal 2012, the third year of the funding plan, the City contributed 59% of the ARC as determined by the actuarial valuation for June 30, 2010.

Additional information relative to the funded status of the Plan is provided in the Management's Discussion and Analysis (MD&A) and in the Actuarial Section. The Schedule of Funding Progress within the Financial Section includes historical trend information comparing the annual contributions recommended by the Plan actuary to the actual contributions made by the City.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

Funding Status-OPEB

The City currently does not have a formal funding plan in place for its other post employment benefits, and it operates on a "pay as you go" basis. Actuarial valuations are conducted annually to determine the actuarial accrued liability, as if the postemployment benefits were prefunded. If the City were to decide to begin prefunding the OPEB obligation on an actuarial basis by contributing the Actuarially Required Contribution into the OPEB Fund, the actuarial accrued liability as of June 30, 2012 would be approximately \$124 million.

The City ensures that its contribution to the OPEB Fund is sufficient to cover all expenditures for the fiscal year. The fund has been closed to new entrants as of March, 2010, and a cap has been placed on the dollar contribution which the City provides to current and future retirees. The actuarially computed funded status of the OPEB Fund as of June 30, 2012 and 2011 was 7% and 6%, respectively.

Investment Authority and Policy

The Pension Fund assets returned 0.6% on a market value basis for the year ended June 30, 2012. However, due to the Fund's asset smoothing technique which recognizes only a portion of the capital appreciation and depreciation, the return on the actuarial asset value was 10.5%, well in excess of the assumed rate of return for the Funds of 7.75%. For the past five years, the Pension fund has experienced an annualized rate of return of 1.6% (based on market value).

The Board recognizes that the objective of a sound and prudent investment policy is to produce investment results which preserve the NNERF assets and maximize the earnings with an appropriate level of risk. The Board recommends, and City Council approves, the target asset allocations for the Funds. The Trustees believe that the established goals for the overall investment portfolio are reasonable and attainable, over the long term.

Actions of the Investment Committee are governed by an investment authority known as the "prudent person rule", as defined in the Code of Virginia, Section 51.1-803. The prudent person rule establishes standards for the fiduciaries of the Plan (the Trustees, in this case), and states that those fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries, and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under like circumstances.

The prudent person rule permits the Board to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment advisors. The Board has adopted a written Investment Policy to guide the investment policies, and define guidelines and objectives used by the Trustees in exercising its responsibilities.

The Investment Committee of the Board, in conjunction with staff, monitors the Plan investments to ensure that the guidelines and objectives of the Investment Policy are being met. The Investment Committee has engaged a professional, independent advisory firm to monitor the performance of

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

the Plan's fund managers. The independent advisor prepares monthly and quarterly statements which are presented to the Investment Committee to evaluate and review the overall performance of the Plan and each individual fund manager. Annual and long-term goals are established for each fund manager, and attainment of their goals is the major factor on whether or not a manager's contract is renewed. Managers who fall below the Board's minimum objectives are replaced.

Professional Services

Professional consultants are appointed by the Trustees to perform services essential to the effective and efficient administrative, operational and investment activities of the NNERF. An independent auditors' report and a certification from the Plan actuary are included as part of this report. Other appointed professionals have also been engaged and are listed in this section on the Administrative Organization page.

Major Initiatives

To address the challenges of declining real property values and declining revenues, the City has implemented several cost savings measures since 2009, including a freeze on merit increases, a hiring moratorium, and eliminating any cost of living or general wage increases for active employees in the fiscal years ended June 30, 2010, and 2011. The City Manager has expressed to City Council the need to review whether changes should be made to better manage the future cost of health insurance and pension benefits for City employees and retirees.

A sub-committee of the Retirement Board, the Benefits and Welfare Committee, initiated a study of the Plan to investigate what action might be reasonably taken to ensure the sustainability of the Plan, protect the interests of the current retirees and active employees, and maintain the affordability of the Plan to the taxpayers of the City. The Benefits and Welfare Committee has made recommendations to the Board regarding changes to NNERF, which would preserve all benefits earned in the past yet reduce the unfunded liabilities of the Plan moving forward.

Awards and Acknowledgements

The Government Finance Officers Association of the United State and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News Employees' Retirement Fund for its Comprehensive Annual Financial Report (CAFR) for June 30, 2011.

A Certificate of Achievement may be awarded if the CAFR is judged to be easily readable, efficiently organized, with content exceeding program standards. The report must satisfy both US generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for one year only. The Board believes our current report continues to meet the program requirements, and we will submit it to the GFOA for consideration again this year.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

This annual report reflects the combined effort of the Plan administrative staff. The Board would like to express our appreciation to all members of the Finance Department and the agencies and advisors who have contributed to the completion of this report.

Respectfully submitted, on behalf of the Retirement Board,



Jeffrey Verhoef
Chairman
Board of Trustees



Tom Mitchell
Director of Finance
City of Newport News

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

**CITY GOVERNMENT OFFICIALS
(at June 30, 2012)**

City Council

McKinley L. Price, DDS	Mayor
Madeline McMillan.....	Vice Mayor
Herbert H. Bateman, Jr	Member
Sharon P. Scott.....	Member
Tina L. Vick	Member
Joseph C. Whitaker	Member
Dr. Patricia P. Woodbury	Member

Office of the City Manager

Neil A. Morgan	City Manager
Alan K. Archer	Assistant City Manager
Cynthia D. Rohlf	Assistant City Manager

Department of Finance

Tom Mitchell	Director of Finance
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Other Officials

Marty Eubank.....	City Treasurer
Pricilla S. Bele.	Commissioner of the Revenue
Charles T. Vester	Acting Real Estate Assessor
Lisa Cipriano	Director of Budget and Evaluation
Cathy S. Matthews	Director of Internal Audit

Vice Mayor Madeline McMillan elected to retire at the end of her term. Robert Coleman was elected to City Council on May 1, 2012 and reported to his seat on July 1, 2012. Subsequently, Herbert Bateman was voted by City Council to be Vice Mayor.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

BOARD OF TRUSTEES

Jeffery Verhoef
Chairman
Citizen Trustee
Term Expires 12/31/12

Frank James
Vice Chairman
Public Works Trustee
Term Expires 12/31/12

Tom Mitchell
Ex-Officio Secretary
Director of Finance

Marty Eubank
Ex-Officio Treasurer
City Treasurer

Richard Caplan
Legal Advisor
Deputy City Attorney

Cathy Matthews
Internal Audit Advisor
Director of Internal Audit

William Keeler
Retiree Advisor
Term Expires 12/31/13

Bill Higgins*
Citizen Trustee
Term Expires 12/31/12

Robert E. Lee*
Public Safety Trustee
Term Expires 12/31/16

Melita Burge
Schools' Trustee
Term Expires 12/31/13

Richard Wuska*
Public Utilities Trustee
Term Expires 12/31/14

Arthur Gudikunst*
Citizen Trustee
Term Expires 12/31/13

Bobby Lanier
Citizen Trustee
Term Expires 12/31/12

Kimberly Powell*
General Employees' Trustee
Term Expires 12/31/15

The members of the Board are appointed and serve pursuant to Chapter 31 of the Newport News City Code which provides for nine (9) voting members. Four members appointed by City Council and five members elected by the employees make up the voting members. The appointed members must reside in the City and cannot be a City employee or member of the fund. The appointed members serve two year terms and are eligible to be appointed to serve four consecutive terms. One employee representative each is elected from general employees, waterworks, fire and police, public works and school employees, all serving five year staggered terms. The Director of Finance is the ex-officio secretary of the board and the administrative head of the fund. The City Treasurer is the ex-officio treasurer of the fund. A retiree member advisor appointed by City Council, the City Attorney and City Internal Auditor serve as advisors to the Board.

*Members of the Benefits and Welfare Committee, a sub-committee of the Retirement Board.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

COMMITTEE ON INVESTMENTS

Charles R. Spencer, Jr.
Chairman
Citizen Member
Term Expires 12/31/12

Rick Elofson
Citizen Member
Term Expires 12/31/12

Philip Hatchett
Citizen Member
Term Expires 12/31/13

Arthur Gudikunst
Board Member
Term Expires 12/31/12

Cynthia D. Rohlf
Assistant City Manager
Term Expires 12/31/12

Pax Goodson
Citizen Member
Term Expires 12/31/13

Bobby Lanier
Board Member
Term Expires 12/31/12

Tom Mitchell
Ex-Officio Secretary
Director of Finance

The committee consists of seven (7) members, one of whom is the City Manager or designee and the remaining six (6) members are appointed by City Council. Two (2) of the six (6) are members of the Board. The appointed members must reside in the City and have financial, real estate or investment background. The City Manager or designee and two (2) committee members from the Board are appointed annually; the remaining four (4) serve two year terms. The function of this committee is to make recommendations to the Board of Trustees for the investments of the Fund reserve or the sale of the securities of the Fund.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT MANAGERS

Aberdeen Asset Management, Inc.
Philadelphia, PA

Atlanta Capital Management
Atlanta, GA

Brandes Investment Partners, LP
San Diego, CA

Constitution Research & Management, Inc.
Boston, MA

Cortina Asset Management
Milwaukee, WI

C.S. McKee
Pittsburgh, PA

DePrince, Race & Zollo, Inc.
Winter Park, FL

Earnest Partners
Atlanta, GA

Fiduciary Management
Milwaukee, WI

Goldman, Sachs & Co.
Chicago, IL

Lord Abbett & Company
Jersey City, NJ

Mellon Financial Service Corporation
Boston, MA

The Molpus Woodlands Group, LLC
Jackson, MS

Morgan Stanley Asset Management
New York, NY

Navellier & Associates
Reno, NV

NewSouth Capital Management, Inc.
Memphis, TN

NNERF Timberland Investments
Atlanta, GA

Pier Capital
Stamford, CT

Prudential Real Estate Advisor
Parsippany, NJ

Richmond Capital Management
Richmond, VA

StoneRidge Investment Partners, LLC
Malvern, PA

Templeton Investment Counsel, Inc.
Ft. Lauderdale, FL

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Tom Mitchell
Director of Finance

Tonya O'Connell
Asst. Director of Finance

Tyreese Hamilton
Employee & Retiree Benefits Manager

M. Kat Thomas
Payroll Coordinator

Brian Sypolt
Accountant II

Susan Keyes
Administrative Coordinator

Micah Chavers
Benefit Coordinator

Janice Jones
Benefit Coordinator

Professional Services

Dahab Associates
Consultant
Bay Shore, New York

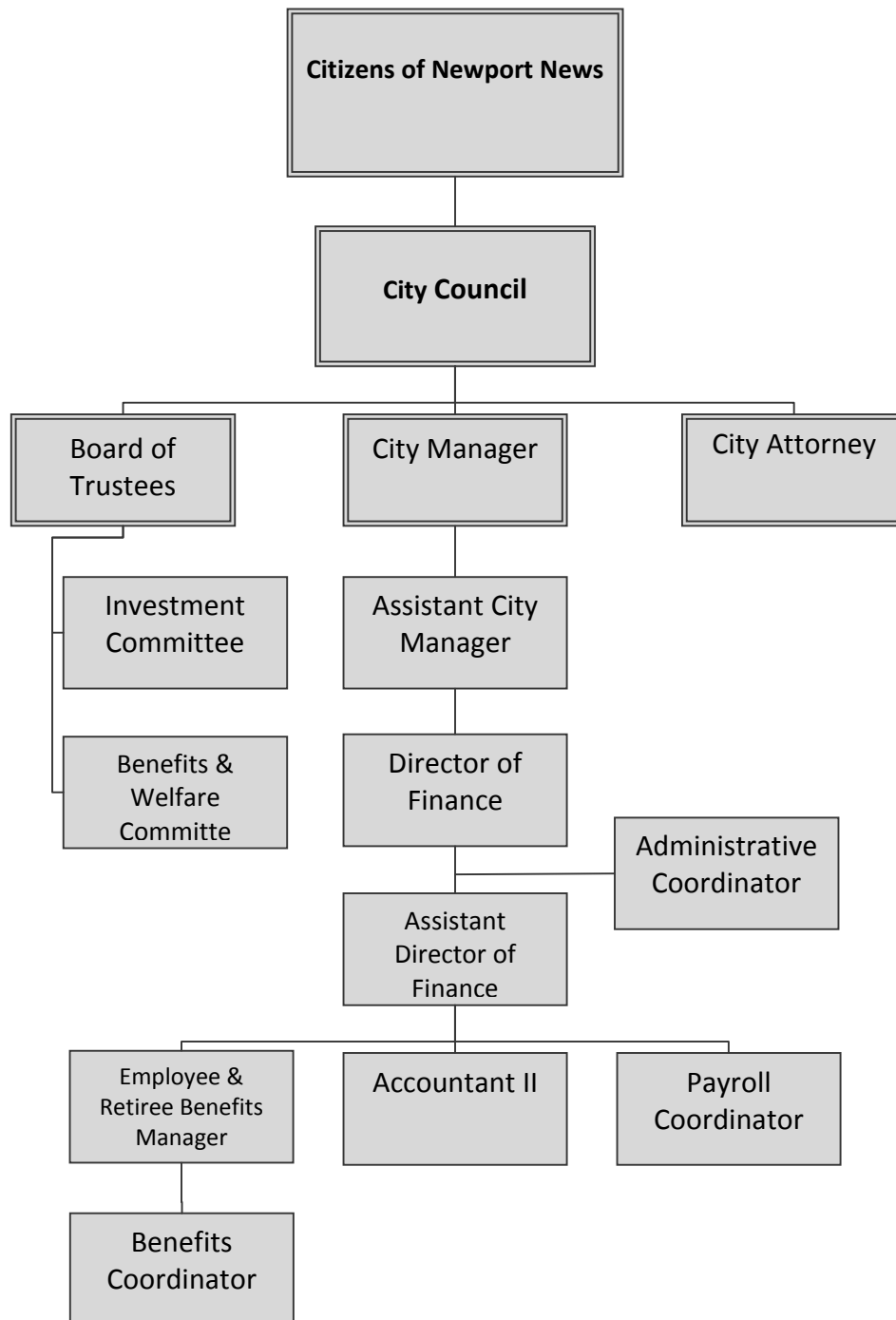
State Street Bank & Trust
Custodian
Kansas City, Missouri

Cheiron
Consulting Actuary
McLean, Virginia

Cherry, Bekaert & Holland, LLP
External Auditors
Richmond, Virginia

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport News Employees' Retirement Fund Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

President

Jeffrey R. Enner

Executive Director



Independent Auditors' Report

The Board of Trustees
Newport News Employees' Retirement Fund
Newport News, Virginia

We have audited the accompanying Statements of Plan Net Assets of Newport News Employees' Retirement Fund and Other Post Employment Benefit Fund (the "Funds"), pension trust funds of the City of Newport News, Virginia, as of June 30, 2012 and 2011, and the related Statements of Changes in Plan Net Assets for the years then ended, which collectively comprise the Funds' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the accompanying financial statements present only the Funds and do not purport to, and do not, present fairly the overall financial position of the City of Newport News, Virginia as of June 30, 2012 and 2011, and the changes in its financial position, and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Funds as of June 30, 2012 and 2011 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 24 and 25, respectively, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The introductory section, investment section, actuarial section, and statistical section as well as the Schedule of Administrative Expenses and the Schedule of Investment Expenses on pages 26 and 27, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Administrative Expenses and the Schedule of Investment Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses and the Schedule of Investment Expenses are fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and, statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Cheng Beckett + Holland, C.C.P.A.

Richmond, Virginia
November 21, 2012

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Newport News Employees' Retirement and Other Post Employment Benefit Funds (NNERF or the Plan), we offer readers this narrative overview and analysis of the financial activities and funding status for the fiscal years ended June 30, 2012 (fiscal 2012) and June 30, 2011 (fiscal 2011). This discussion is intended to be read in conjunction with the basic financial statements, which directly follow.

The Plan covers employees of the City of Newport News (the City) and the Newport News School System (Schools).

FINANCIAL HIGHLIGHTS

- The Plan participants include 6,000 active City employees and 2,000 terminated employees with vested benefits who are not yet receiving benefits, and 5,000 retirees (or their beneficiary) who are currently receiving retirement benefits from the Plan.
- The Plan has been closed to new entrants as of July 1, 2009 for Schools and as of March 1, 2010 for the City. Employees hired after those dates participate in the Virginia Retirement System (VRS) defined benefit pension plan.
- The Pension Fund assets exceeded liabilities at the close of the fiscal years 2012 and 2011 by \$709.5 million and \$732.8 million, respectively. The total net assets of the Pension Fund are held in trust to meet future payments of retirement benefits.
- The assets of the Other Post Employment Benefit (OPEB) Fund exceeded liabilities at the close of fiscal years 2012 and 2011 by \$15.6 million and \$14.1 million, respectively. The total net assets of the OPEB Fund are held in trust to meet future payments for health care benefits paid on behalf of retirees, or their beneficiary.
- Net investment income for fiscal 2012 for the Pension and OPEB Funds were \$4.9 million and \$(0.2) million, a decrease from fiscal 2011 earnings of \$131.7 million and \$1.6 million. The decline in income was largely due to the decline in the market value of the securities held by the Funds.
- Total payments from the Pension Fund increased from \$58.2 in fiscal 2011 to \$61.6 in fiscal 2012. The increase was due to the increased number of retirees in 2012.
- Total payments from the OPEB Fund decreased from \$9.7 million for fiscal 2011 to \$9.3 million in fiscal 2012. The decrease is due to lower medical claims expense and an increase in the number of retirees who discontinued their medical insurance coverage.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

- Actual contributions made by the City and Schools to the Pension Fund (\$32.8 million for fiscal 2012 and \$27.4 million for fiscal 2011) were lower than the Actuarially Recommended Contribution (ARC) for those years. The Unfunded Actuarial Accrued Liability (UAAL) decreased by \$6.0 million for the fiscal year ended June 30, 2012 after increasing by \$31.0 million for the fiscal year ended June 30, 2011. A reduction in the UAAL results in an improvement in the funded status of the Plan.
- Although the City has established an OPEB Trust Fund to hold assets in trust for the payment of retiree health costs, there is not a structured plan to prefund retiree health costs. The City operates on a pay as you go basis. Actual contributions by the City to the OPEB Fund were \$10.9 million for fiscal 2012 and \$11.8 million for fiscal 2011.

STATEMENT OF PLAN NET ASSETS

The purpose of the Statement of Plan Net Assets is to show all of the Fund assets and liabilities, with the difference between the two reported as Net Assets Held in Trust for Benefits. Over time, increases and decreases in net assets indicate whether the assets available for distribution are increasing or declining in respect to the Plan liabilities. The following is a condensed comparative summary of net assets as of June 30th:

**STATEMENT OF PLAN NET ASSETS
as of June 30**

		Pension Fund		
		2012	2011	2010
Assets				
Cash	\$	56,188,559	\$ 35,070,039	\$ 15,969,100
Receivables		5,619,868	7,609,795	4,443,192
Investments, at fair value		670,340,306	694,177,901	613,055,202
Total Assets		<u>732,148,733</u>	<u>736,857,735</u>	<u>633,467,494</u>
Liabilities				
Accounts payable and other		<u>22,673,214</u>	<u>4,055,070</u>	<u>2,085,789</u>
Net assets held in trust for pension benefits		<u>\$ 709,475,519</u>	<u>\$ 732,802,665</u>	<u>\$ 631,381,705</u>
		OPEB Fund		
		2012	2011	2010
Assets				
Cash	\$	2,142,341	\$ 3,908,111	\$ 2,088,054
Receivables		58,162	2,259,349	5,034,262
Investments, at fair value		15,028,148	10,119,770	5,377,928
Total Assets		<u>17,228,651</u>	<u>16,287,230</u>	<u>12,500,244</u>
LIABILITIES				
Accounts payable and other		<u>1,647,968</u>	<u>2,152,117</u>	<u>2,119,338</u>
Net assets held in trust for postretirement benefits		<u>\$ 15,580,683</u>	<u>\$ 14,135,113</u>	<u>\$ 10,380,906</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

During FY2012, total net assets held in the Pension and OPEB funds for future benefits decreased \$21.9 million or 2.9% from the prior fiscal year, compared to an increase of \$105.2 million or 16.4% for fiscal year 2011. The majority of the fiscal 2012 decrease results from the decline in the market value of the investments owned by the Fund.

STATEMENT OF CHANGES IN PLAN NET ASSETS

The focus of the Statement of Changes in Plan Net Assets is to report the financial activity of the NNERF for the fiscal year. The following table summarizes the comparative financial activity for the fiscal years 2012, 2011 and 2010.

**STATEMENT OF CHANGES IN PLAN NET ASSETS
For the year ended June 30,**

	Pension Fund		
	2012	2011	2010
Additions			
Contributions	\$ 33,319,454	\$ 27,940,478	\$ 22,505,661
Net investment gain	4,914,971	131,681,480	64,249,644
Total additions	38,234,425	159,621,958	86,755,305
Deductions			
Pension benefits	60,779,356	57,486,400	54,595,231
Administrative expenses	782,215	714,598	848,373
Total deductions	61,561,571	58,200,998	55,443,604
Net increase (decrease)	(23,327,146)	101,420,960	31,311,701
Net assets held in trust for pension benefits			
Beginning of the year	732,802,665	631,381,705	600,070,004
End of the year	\$ 709,475,519	\$ 732,802,665	\$ 631,381,705
	OPEB Fund		
	2012	2011	2010
Additions			
Contributions	\$ 10,908,694	\$ 11,830,543	\$ 12,132,861
Net investment gain (loss)	(150,647)	1,591,007	1,294,287
Total additions	10,758,047	13,421,550	13,427,148
Deductions			
Pension benefits	9,290,480	9,635,343	9,438,701
Administrative expenses	21,997	32,000	122,098
Cash distribution	-	-	1,587,570
Total deductions	9,312,477	9,667,343	11,148,369
Net increase (decrease)	1,445,570	3,754,207	2,278,779
Net assets held in trust for postretirement benefits			
Beginning of the year	14,135,113	10,380,906	8,102,127
End of the year	\$ 15,580,683	\$ 14,135,113	\$ 10,380,906

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Additions to the Pension Fund are comprised of employer contributions and the earnings on the investments held by the Fund. The City previously adopted a funding plan for the Pension Fund which progressively moves toward the City funding 100% of the Actuarially Recommended Contribution (ARC) each year. In fiscal 2012, the third year of the funding plan, City and Schools contributed \$32.8 million to the Pension Fund which was an increase over the \$27.4 million contribution for fiscal 2011.

Additions to the OPEB fund consist of insurance premiums paid by retirees and contributions from the City. The City does not have a formal funding plan to prefund the OPEB benefits, and makes monthly contributions to the OPEB Fund which are estimated as sufficient to pay all current medical claims incurred by Plan participants.

Investment results for the Pension and OPEB Funds for fiscal 2012 were significantly lower than the results for fiscal 2011, mostly because of the decline in the market value of the investments held by the Funds. Investment gains for the Pension Fund were lower in 2012 by \$126.8 million compared to fiscal 2011. For the OPEB Fund, investment earnings were \$1.7 million lower in fiscal 2012 than in 2011.

Deductions from the net assets of the Pension and OPEB Funds are the payments made for administrative expenses and payments to the retirees or on their behalf. Payments to retirees from the Pension Fund increased \$3.3 million in fiscal 2012 over fiscal 2011, an increase of 5.7%. The increase is largely due to the increase in number of retirees (from 4,718 in 2011 to 5,007 in 2012) and the cost of living adjustment which increased retiree benefits by 1.3% on July 1, 2011.

Payments from the OPEB Fund for retiree health claims declined in 2012 by over \$300,000 due to the decrease in participants resulting from more retirees terminating health coverage under the Plan.

PLAN MEMBERSHIP

The Newport News Employees' Retirement Fund has over 13,000 active or vested members and retirees and provides pension benefits for employees of the local government, including the Newport News School System (Schools). Non-professional Schools employees are covered by NNERF. For professional school personnel (teachers and staff), NNERF is a supplement to their benefits under the Virginia Retirement System (VRS) plan. The School employees who are in NNERF are designated as "Schools-Non VRS" in the accompanying chart. The employees for whom NNERF provides only a retirement supplement are shown as "Schools-VRS" in the chart below. The Plan was closed to new entrants as of July 1, 2009 for Schools and as of March 1, 2010 for the City. The following outlines the Plan membership as of June 30th:

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

PLAN MEMBERSHIP

	2012	2011
ACTIVE EMPLOYEES		
General	1,356	1,425
Police & Fire	911	962
Public Utilities	274	287
Schools - VRS	2,680	2,897
Schools - Non VRS	786	867
TOTAL	6,007	6,438
VESTED TERMINATED EMPLOYEES		
General	600	624
Police & Fire	223	235
Public Utilities	107	116
Schools - VRS	952	1,064
Schools - Non VRS	169	219
TOTAL	2,051	2,258
RETIREES & BENEFICIARIES		
General	1,030	997
Police & Fire	726	695
Public Utilities	213	206
Schools - VRS	2,288	2,124
Schools - Non VRS	750	696
TOTAL	5,007	4,718

FUNDED STATUS

The funded status of the Pension Fund reflects the Plan's ability to pay benefits over the long term. The funded status is measured by comparing the actuarial value of assets with the actuarial liability for benefits to be paid. The actuarial value of the Fund assets is determined by using a smoothing formula for gains and losses on investments which more accurately reflects the long term nature of the Fund and lessens the impact of significant market fluctuations for any given year. The actuarial liability is an estimate of the value of benefits to be paid in the future, based on the payroll as of June 30, 2012 and projected salary increases.

The Pension Fund's funded status was 57.8%, 56.0% and 57.5% as of June 30, 2012, 2011 and 2010, respectively. The Plan's unfunded actuarial liability was \$496.8 million, \$503.2 million and \$472.2 million for those same dates. The funded status based on the market value of the Fund assets was 60.3%, 64.9% and 56.8%.

The funded status of a pension fund is significantly enhanced when contributions are made on a timely basis, and in amounts recommended by the actuary. For the past several years, the City

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

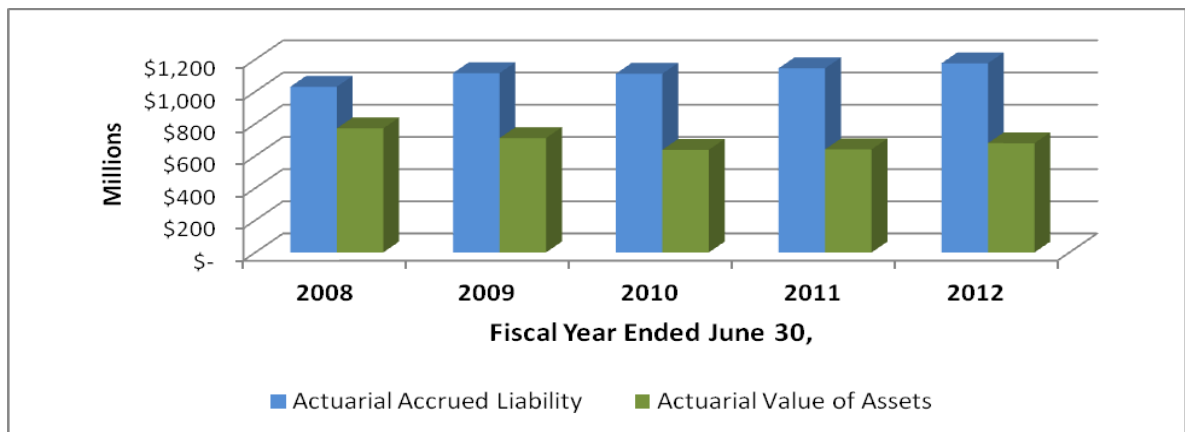
contributions have been less than the amount recommended by the Fund's actuary, known as the Actuarially Recommended Contribution (ARC), and also as the Annual Required Contribution.

For the fiscal 2012 the contribution to the Pension Fund was \$32.8 million compared to the recommended contribution of \$55.0 million, a shortfall of \$22.2 million. For fiscal 2011, the contribution was \$27.4 million compared to the recommended \$50.3, a shortfall of \$22.9 million.

For the fiscal year ended June 30, 2012 the contribution to the OPEB Fund was \$10.9 million compared to the actuarially required contribution of \$17.9 million, if the OPEB Fund was to be prefunded. The contribution for fiscal 2011 was \$11.8 million compared to the ARC of \$18.3 million.

The actuary uses a three-year smoothing policy to establish the actuarial value of the assets used to determine the funded ratio for the Pension Fund. As of June 30, 2012, the market value of the Pension Fund assets were \$709.5 million compared to the actuarial valuation of \$679.6 million. As of June 30, 2011, the market value was \$732.8 million compared to the actuarial valuation of \$641.4 million.

The following graph indicates the actuarial accrued liability and actuarial value of assets of the Pension Fund for the last five fiscal years:



ECONOMIC CONDITIONS AND OUTLOOK

The U.S. economy continues to grow at a slow pace. During the first half of 2012, real GDP grew at an average 1.8% annual rate. We concur with the general belief that GDP growth will remain positive, albeit in the 1.5% to 2.5% range. Housing activity has increased and existing home prices have stabilized or risen in most major markets. Unemployment is at a three year low, but will most likely continue to be high for some time.

Corporate America streamlined their operations to improve productivity in the 2009-2010 periods and some companies are beginning to hire, but very selectively. Local governments continue to lower their employee counts in the face of serious budget constraints. Federal stimulus funds had bolstered government coffers and delayed the public sector workforce reductions until 2011.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Without a significant influx of new Federal stimulus funds, it is likely that public sector headcounts will continue to shrink in the near future.

The June unemployment figure of 8.2% was down markedly from last year's 9.1% figure (and a full 2% below the high of 10.2%). However, the current rate of job creation (between 100,000 and 200,000 per month) is inadequate to significantly reduce the numbers of chronically unemployed or underemployed.

Inflation for the twelve months ending June 30th was only 1.7%. We believe that the inflation rate as measured by the Consumer price Index should stay low for the remainder of 2012 and probably all of 2013. However, at some point in the not-too-distant future, the inflation rate may rise rapidly as global demand resumes and interest rates increase because of the massive government debt.

CONTACTING FINANCIAL MANAGEMENT

The financial report is designed to provide users with an overview of the NNERF's financial performance and to demonstrate the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Newport News Employees' Retirement Fund, 2400 Washington Avenue, Finance Department - 7th Floor, Newport News, VA 23607.

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**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

**Statements of Plan Net Assets
June 30, 2012 and 2011**

	Pension Fund	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,267,725	\$ 2,197,352
Cash and cash equivalents with trustee	54,920,834	32,872,687
	<u>56,188,559</u>	<u>35,070,039</u>
Receivables		
City Contributions	2,964,712	2,147,369
Other Component Contributions	744,815	2,014,441
Interest receivable	573,620	959,009
Dividend receivable	-	58,140
Sales receivable	1,336,721	2,430,836
Total receivables	<u>5,619,868</u>	<u>7,609,795</u>
Investments, at market value		
Corporate and government bonds	170,489,323	159,197,131
Common stock of North American companies	278,370,502	332,397,547
International stocks	82,250,230	92,228,350
International mutual funds	53,018,188	40,453,549
Real Estate and Timber	86,212,063	69,901,324
Total investments	<u>670,340,306</u>	<u>694,177,901</u>
Total assets	<u>732,148,733</u>	<u>736,857,735</u>
Liabilities		
Accounts payable	200,701	64,199
Accrued vacation	27,295	28,976
Purchases payable	22,445,218	3,961,895
Total liabilities	<u>22,673,214</u>	<u>4,055,070</u>
Net assets held in trust for Pension Benefits	<u>\$ 709,475,519</u>	<u>\$ 732,802,665</u>

See accompanying notes to basic financial statements

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

**Statements of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 2012 and 2011**

	Pension Fund	
	2012	2011
Additions:		
Employer Contributions:		
City General Fund	\$ 20,743,792	\$ 19,173,375
Additional Contribution - General Fund	-	2,013,744
Waterworks Fund	2,710,289	2,214,613
School Operating Fund	7,318,237	3,996,867
Additional Contribution - Schools	2,013,744	-
Other Contributions:		
Income from Leave Exchange	167,489	171,916
Employee Buy-back	365,903	369,963
Total contributions	<u>33,319,454</u>	<u>27,940,478</u>
Investment income:		
Net appreciation - bonds	7,926,558	5,591,865
Net appreciation (depreciation) - stocks	(16,827,913)	101,731,754
Interest	5,538,588	6,703,210
Dividends	8,208,211	14,578,680
Real estate operating income, net	4,334,454	7,058,110
Commission recapture	78,531	69,843
Total investment loss	<u>9,258,429</u>	<u>135,733,462</u>
Less investment expenses:	<u>(4,343,458)</u>	<u>(4,051,982)</u>
Net investment gain	<u>4,914,971</u>	<u>131,681,480</u>
Total increase	<u>38,234,425</u>	<u>159,621,958</u>
Deductions:		
Benefits paid to participants	60,779,356	57,486,400
Administrative expenses	782,215	714,598
Total deductions	<u>61,561,571</u>	<u>58,200,998</u>
Net increase (decrease)	(23,327,146)	101,420,960
Net assets held in trust for Pension Benefits:		
Beginning of Year	732,802,665	631,381,705
End of Year	<u>\$ 709,475,519</u>	<u>\$ 732,802,665</u>

See accompanying notes to basic financial statements.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

**Statements of Plan Net Assets
June 30, 2012 and 2011**

	OPEB Fund	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,880,476	\$ 3,733,350
Cash and cash equivalents with trustee	261,865	174,761
	<u>2,142,341</u>	<u>3,908,111</u>
Receivables		
Employer contributions	-	2,195,258
Dividend receivable	-	2,489
Sales receivable	58,162	61,602
Total receivables	<u>58,162</u>	<u>2,259,349</u>
Investments, at market value		
Domestic mutual funds	10,002,456	5,919,716
International mutual funds	5,025,692	4,200,054
Total investments	<u>15,028,148</u>	<u>10,119,770</u>
Total assets	<u>17,228,651</u>	<u>16,287,230</u>
Liabilities		
Accounts payable	1,019,241	1,997,811
Payable to City	455,708	126,672
Purchases payable	173,019	27,634
Total liabilities	<u>1,647,968</u>	<u>2,152,117</u>
Net assets held in trust for Other Post Employment Benefits	<u>\$ 15,580,683</u>	<u>\$ 14,135,113</u>

See accompanying notes to basic financial statements

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

**Statements of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 2012 and 2011**

	OPEB Fund	
	2012	2011
Additions:		
Employer Contributions:		
City General Fund	\$ 9,088,786	\$ 8,773,090
Additional Contribution - General Fund	600,000	2,100,000
Waterworks Fund	1,219,908	957,453
Total contributions	<u>10,908,694</u>	<u>11,830,543</u>
Investment income:		
Net appreciation (depreciation) - stocks	(308,250)	1,546,829
Interest	5,176	12,205
Dividends	208,987	92,873
Other investment income	2,284	2,300
Total investment gain (loss)	<u>(91,803)</u>	<u>1,654,207</u>
Less investment expenses:	<u>(58,844)</u>	<u>(63,200)</u>
Net investment gain (loss)	<u>(150,647)</u>	<u>1,591,007</u>
Total increase	<u>10,758,047</u>	<u>13,421,550</u>
Deductions:		
Benefits paid to participants	9,290,480	9,635,343
Administrative expenses	21,997	32,000
Total deductions	<u>9,312,477</u>	<u>9,667,343</u>
Net increase	1,445,570	3,754,207
Net assets held in trust for Other Post Employment Benefits:		
Beginning of Year	14,135,113	10,380,906
End of Year	<u>\$ 15,580,683</u>	<u>\$ 14,135,113</u>

See accompanying notes to basic financial statements

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Newport News Employees' Retirement Fund (NNERF, or Plan) are prepared using the accrual basis of accounting. Contributions are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan, regardless of when paid. The City of Newport News (City) makes contributions, which are combined with investment earnings to provide retirement benefits and administrative costs. The Plan's two Funds, the Pension Fund (Pension) and the Other Post Employment Benefit (OPEB) Fund, are considered trust funds of the City, so they are included and incorporated into the City's Comprehensive Annual Financial Report (CAFR).

The NNERF and OPEB financial statements have been prepared in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 25 and 43 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which establishes basic financial reporting standards. These standards require two basic financial statements; (1) a statement of plan net assets and (2) a statement of changes in plan net assets. In addition, actuarially determined information about the funded status of the Plan and related funding progress is presented in two additional schedules; (1) a schedule of funding progress and (2) a schedule of employer contributions. GASB 25 establishes certain parameters for the measurement of all actuarially determined information.

METHOD USED TO VALUE INVESTMENTS

The investments of NNERF are reflected at fair value in the basic financial statements. Cash equivalents and short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of corporate and government bonds is based on quotations obtained from major credit rating agencies. Fair value of real estate investments is based on independent appraisals and expert valuations. Instruments that do not have an established market are reported at estimated fair value. Purchases and sales of securities are recognized on the trade date, which is the date the order to buy or sell is originated.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates.

B PLAN DESCRIPTION

The Plan is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension and other post employment benefits for employees of the local government, including the Newport News School System (Schools). For those school teachers and administrative support personnel employed by Schools, the Plan provides a small supplement to the Virginia Retirement System (VRS) plan, which covers most of Schools professional employees. The Plan has been closed to new entrants effective July 1, 2009 for Schools and March 1, 2010 for the City.

The Plan consists of two separate funds, the Pension Fund (Pension) and the Other Post Employment Benefits (OPEB) Fund. The Plan is classified as a pension trust fund and is considered part of the City's financial reporting entity. The City issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required information for the Plan. The report may be obtained by writing to the City of Newport News Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

The Pension Fund

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. Employees hired after the above dates are in Virginia Retirement System, an agent multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia. For the years ended June 30, 2012 and June 30, 2011, the total payroll of the City and Schools was approximately \$338.3 million and \$342.9 million, respectively, with approximately \$248.5 million and \$261.8 million paid to employees covered by the Pension Fund. At June 30, 2012, membership in the Plan consisted of:

	Retirees and <u>Beneficiaries</u>	Vested Terminated <u>Employees</u>	Active Employees <u>Vested</u>	Active Employees <u>Non-Vested</u>	<u>Total</u>
City general	1,030	600	1,139	217	2,986
City police and fire	726	223	705	206	1,860
Public utilities	213	107	239	35	594
School VRS	2,288	952	2,362	318	5,920
School Non-VRS	750	169	669	117	1,705
Total	5,007	2,051	5,114	893	13,065

The Pension Fund provides pension, life insurance and disability benefits. Members vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

compensation for each year of credited service worked through February 28, 2010, and 1.85% for each year of credited service after March 1, 2010. Average Final Compensation (AFC) is defined as the average compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Members do not contribute to the Pension Fund.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

Employees with at least five years of credited service are eligible to purchase all or part of certain prior service credits. The types of prior service eligible include time employed by the City under other government programs and military service.

Pension Fund-Contributions Required and Contributions Made

The Pension Fund is noncontributory for employees. The Plan engages an actuary to determine the Actuarially Required Contribution (ARC), sometimes referred to as the Annual Recommended Contribution. However, the City has not contributed 100% of the ARC to the Fund since 2004. In 2010, the City established an eight year funding program to begin fully funding the ARC by 2016. The City contributed 58% of the ARC in fiscal 2012 and 48% in 2011.

Contributions totaling \$32,786,062 and \$27,398,599 were made by the City to the Pension Fund during the years ended June 30, 2012 and June 30, 2011. The percentage of City contributions to covered payroll for fiscal 2012 was 13.2% and 10.5% for fiscal 2011.

The percentage of normal costs to covered payroll was 5.40% and 5.07% for fiscal years ending June 30, 2012 and June 30, 2011, respectively. The City's annual pension costs and net pension obligation to the Pension Fund for 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
(000's Omitted)		
Annual required contribution	\$ 55,011	\$ 56,662
Interest on net pension obligation (NPO)	13,543	11,353
Adjustment to ARC	<u>(14,749)</u>	<u>(12,355)</u>
Annual pension cost (APC)	53,805	55,660
Contributions made	<u>(32,786)</u>	<u>(27,399)</u>
Increase in net pension obligation	21,019	28,261
Net pension obligation at beginning of year	<u>174,750</u>	<u>146,489</u>
Net pension obligation at end of year	\$ <u><u>195,769</u></u>	\$ <u><u>174,750</u></u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Pension Fund- Funded Status and Funding Progress

The funded status of the Pension Fund as of June 30 for the past three years was as follows:

(in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Funded Ratio	57.8 %	56.0 %	57.5 %
Covered Payroll	\$ 248.5	\$ 261.8	\$ 283.1
UAAL as a percentage of covered payroll	199.9 %	192.2 %	166.8 %
Actuarial value of assets	\$ 679.6	\$ 641.4	\$ 638.4
Actuarial Accrued Liability (AAL)	1,176.4	1,144.6	1110.6
Unfunded AAL (UAAL)	\$ <u>496.8</u>	\$ <u>503.2</u>	\$ <u>472.2</u>

Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/12
Actuarial cost method	Entry age
Amortization method	Closed
Remaining amortization period	28 years
Asset valuation method	Three-Year smoothed appreciation/(depreciation)
Actuarial assumptions:	
Investment rate of return	7.75%
Rate of salary increases	5.0%
Cost of living adjustment	1.9%
Inflation	2.8%

Pension Fund- Three Year Trend information

The chart below shows the changes in the Annual Pension cost (ARC) and the Net Pension Obligation over the past three years.

(000's Omitted)			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 53,805	60.9%	\$ 195,769
June 30, 2011	55,660	49.2%	174,750
June 30, 2010	40,094	52.8%	146,489

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Other Post Employment Benefits (OPEB) Fund

The OPEB Fund provides medical benefits, insurance premium payments, dental and vision insurance to retirees who enroll in the programs offered. Once a retiree has withdrawn from the OPEB Fund by terminating coverage, they are not able to rejoin the plan. Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

For reporting purposes, the assets, income and expenses of the OPEB fund were included with the Pension Fund from FY 2000 – 2007. However, the calculation of the net pension obligation for pension excluded OPEB contributions.

The City offers health and dental coverage to eligible retirees and their eligible dependents through the OPEB Fund. Effective July 1, 2005, the City's contribution to retirees' medical insurance premiums was capped and annually adjusted with a CPI-based formula. Retirees must have at least 10 years of service to receive a premium contribution. Those having 25 years or more receive the maximum contribution. At age 65, the retiree's coverage converts to a Medicare Supplement insurance program. Each retiree is provided a life insurance benefit of 50% of salary for City participants who were eligible to retire before July 1, 2005. For participants not eligible to retire before July 1, 2005, the life insurance benefit is 50% of salary upon retirement, and is reduced 20% per year after retirement, but not below \$10,000. The life insurance is provided at no cost to retirees. The City's cost is paid from the OPEB Fund.

Benefit provisions for the City are established and amended through the City Council. Since 1958, the City has allowed employees to continue their coverage after retirement.

The actual costs to the fund for the retirees for years ended June 30 are as follow:

	Health Insurance		Dental Insurance		Life Insurance	
	Participants	Costs	Participants	Costs	Participants	Costs
2012	1,286	\$ 8,444,597	1,363	\$ 499,626	1,711	\$ 346,257
2011	1,347	\$ 8,790,299	1,360	\$ 503,747	1,694	\$ 341,297
2010	1,408	\$ 8,615,927	1,308	\$ 487,528	1,669	\$ 335,247

Employees who leave City employment before meeting the age and service requirement to receive a pension are not eligible for post-retirement benefits.

OPEB Fund- Contribution Required and Contributions Made

The City does not have a formal funding policy for the OPEB Fund, and operates on a pay-as-you-go basis. The City makes monthly contributions to the OPEB Fund in amounts sufficient to

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

pay all claims and expenses which are not covered by the retiree contributions to the Fund for their portion of their insurance premiums.

Contributions by the City to the OPEB Fund totaling \$10.9 million, \$11.8 million and \$12.1 million were made during the years ended June 30, 2012, June 30, 2011 and June 30, 2010. The following table shows the components of the City's annual OPEB costs for the year, the amounts contributed to the Plan, and changes in the City's net OPEB obligation:

	June 30, 2012	June 30, 2011	June 30, 2010
Annual Required Contribution	\$ 17,891,772	\$ 18,290,221	\$ 17,891,772
Interest on net OPEB Obligation	627,798	376,117	627,798
Adjustment to annual required contribution:	(924,117)	(543,772)	924,117
Annual OPEB Cost	17,595,453	18,122,566	19,443,687
Contributions made	(10,908,694)	(11,830,543)	(10,908,690)
Increase (decrease) in net OPEB obligation	6,686,759	6,292,023	8,534,997
Net OPEB obligation at beginning of fiscal year	15,694,938	9,402,915	15,694,942
Net OPEB obligation at end of fiscal year	\$ 22,381,697	\$ 15,694,938	\$ 24,229,939

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligations were:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 17,891,772	60.97%	\$22,381,697
June 30, 2011	\$ 18,290,221	64.68%	\$15,694,938
June 30, 2010	\$ 17,891,772	60.97%	\$24,229,939

OPEB Fund- Funded Status and Funding Progress

The funded status of the OPEB Fund as of fiscal 2012, 2011 and 2010 was as follows:

<i>(in millions)</i>	2012	2011	2010
Actuarial value of assets	\$ 15.6	\$ 14.1	\$ 10.4
Actuarial Accrued Liability (AAL)	216.9	232.0	237.4
Unfunded AAL (UAAL)	\$ 201.3	\$ 217.9	\$ 227.0
 <i>(in millions)</i>			
Funded Ratio	7.0 %	6.0 %	4.0 %
Covered Payroll	\$ 113.6	\$ 118.6	\$ 124.9
UAAL as a percentage of covered payroll	177.2 %	183.7 %	181.7 %

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

C ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits are based on the substantive plan (the plan as understood by the City and Plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the Plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	7/1/12
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	28 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.0%
Ultimate rate of Medical inflation (capped by employer policy)	1.9%
Inflation	2.8%

D INVESTMENT POLICY

The Pension Fund can be invested in obligations of the U.S. or agencies thereof, obligations of the Commonwealth of Virginia, or political subdivisions thereof, corporate bonds rated A or higher by two of three nationally known security rating concerns, federally insured mortgages under Titles 203, 207, 220 and 221 of the National Housing Act, equities, certificates of deposit, guaranteed investment contracts and real estate. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board.

At year-end, the Pension Fund's cash and investment balances were as follows:

Investments	Pension Fund		OPEB Fund	
	2012	2011	2012	2011
Investments				
Common and international stock	\$ 413,638,920	\$ 465,079,446	\$ 15,028,148	\$ 10,119,770
Corporate and government bonds	170,489,323	159,197,131	-	-
Pension fund real estate trust funds	86,212,063	69,901,324	-	-
Total Investments	670,340,306	694,177,901	\$ 15,028,148	\$ 10,119,770
Cash and deposits				
Deposits with banks	439,468	93,418	750,000	733,000
Deposits with banks - repurchase agreements	828,257	2,103,934	1,130,476	3,000,350
Pension trust fund money markets	54,920,834	32,872,688	261,865	174,761
Total deposits and investments	\$ 726,528,865	\$ 729,247,941	\$ 17,170,489	\$ 14,027,881

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

The Pension Fund's cash and investments as of June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	Pension Fund		OPEB Fund	
	2012	2011	2012	2011
Cash and cash equivalents	\$ 1,267,725	\$ 2,197,352	\$ 1,880,476	\$ 3,733,350
Cash and cash equivalents with trustee	54,920,834	32,872,688	261,865	174,761
Investments, at market value				
Corporate and government bonds	170,489,323	159,197,131	-	-
Common stock	278,370,502	332,397,547	-	-
International stock	82,250,230	92,228,350	10,002,456	5,919,716
International emerging markets	53,018,188	40,453,549	5,025,692	4,200,054
Real Estate and Timber	86,212,063	69,901,324	-	-
Total deposits and investments	<u>\$ 726,528,865</u>	<u>\$ 729,247,941</u>	<u>\$ 17,170,489</u>	<u>\$ 14,027,881</u>

E CREDIT RISK OF PENSION FUNDS

The credit risk profile for the Pension Funds securities by investment type is as follows:

Investment Types	<u>S & P's Ratings as of June 30, 2012</u>					
	TOTAL	AAA	AA	A	BBB	Not Rated
Asset-backed	\$ 17,652,546	\$ 13,704,517	\$ 775,872	\$ -	\$ -	\$ 3,172,157
Corporate Bonds	51,944,873	430,410	6,287,281	41,783,910	2,230,192	1,213,080
Foreign Currency	351,300	-	-	-	-	351,300
Mortgage-backed	66,755,850	6,027,137	47,120,688	-	-	13,608,025
Municipals	408,190	-	408,190	-	-	-
Mutual Funds	120,545,268	-	-	-	-	120,545,268
Real Estate Inv.	14,768,807	-	-	-	-	14,768,807
Short-Term	54,331,372	-	-	-	-	54,331,372
U.S. Agencies	14,994,478	-	14,714,650	-	-	279,828
U.S. Treasury	19,232,719	-	-	-	-	19,232,719
Warrants	-	-	-	-	-	-
Non-fixed income	365,564,574	-	-	-	-	365,564,574
Total	<u>\$ 726,549,977</u>	<u>20,162,064</u>	<u>69,306,681</u>	<u>41,783,910</u>	<u>2,230,192</u>	<u>593,067,130</u>

Investment Types	<u>S & P's Ratings as of June 30, 2011</u>					
	TOTAL	AAA	AA	A	BBB	Not Rated
Asset-backed	\$ 17,708,414	\$ 14,523,347	\$ -	\$ -	\$ -	\$ 3,185,067
Corporate Bonds	44,309,913	395,045	8,411,566	34,850,487	652,815	-
Foreign Currency	7,585,873	-	-	-	-	7,585,873
Mortgage-backed	53,276,649	52,567,641	102,075	-	-	606,933
Municipals	313,533	-	313,533	-	-	-
Mutual Funds	90,831,423	-	-	-	-	90,831,423
Real Estate Inv.	388,874	-	-	-	-	388,874
Short-Term	24,317,997	-	-	-	-	24,317,997
U.S. Agencies	26,178,611	23,222,159	282,194	-	-	2,674,258
U.S. Treasury	18,558,010	296,302	-	-	-	18,261,708
Warrants	33	-	-	-	-	33
Non-fixed income	445,778,609	-	-	-	-	445,778,609
Total	<u>\$ 729,247,939</u>	<u>91,004,494</u>	<u>9,109,368</u>	<u>34,850,487</u>	<u>652,815</u>	<u>593,630,775</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Concentration of Credit Risk – Pension Fund

There were no investments in any one issuer that represented 5% or more of the total Pension Fund investments.

Custodial Risk – Pension and OPEB Funds

The policy requires that all securities purchased for the Pension and OPEB Funds shall be held by the City Treasurer or by the designated third-party custodian. If held by a custodian, the securities must be in the City's or in the custodian's nominee name. The custodian holds investment securities in the Fund's name. Accordingly, the Fund is not exposed to custodial credit risk.

Foreign Currency Risk – Pension Fund

The Pension Fund does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Pension Fund's exposure to foreign currency risk is as follows:

<u>Investment</u>	<u>Currency</u>	<u>Fair Value</u>
Cash equivalent	Euro currency	\$ 16,030
Cash equivalent	Japanese yen	9,283
Common stock	Pound sterling	<u>35,769</u>
Total		\$ <u><u>61,082</u></u>

Interest Risk – Pension Fund

The Pension Fund's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Barclays Aggregate Bond Index thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income portfolio is to outperform the Barclays Aggregate Bond Index over a moving 3-5 year range, with the exception of long duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the Pension Fund's fixed income portfolio consisted of the following investment and maturities as of June 30, 2012:

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Investment Type	Fair Value	< 5 years	5 - 10	10 - 15	15 - 20	> 20 years
US Government	\$ 33,526,713	\$ 14,488,569	\$ 3,176,981	\$ 6,343,606	\$ 1,130,814	\$ 8,386,743
Municipal	408,190	-	-	-	-	408,190
Corporate Bonds	52,188,422	19,136,279	22,375,532	2,939,203	3,983,187	3,754,221
MTGE	85,108,880	74,988,146	10,120,734	-	-	-
Bond Mutual Funds	-	-	-	-	-	-
total	\$ 171,232,205	\$ 108,612,994	\$ 35,673,247	\$ 9,282,809	\$ 5,114,001	\$ 12,549,154

F UNFUNDED ACTUARIAL ACCRUED LIABILITY

As of June 30, 2012 the Unfunded Actuarial Accrued Liability (UAAL) for the retirement plan was \$496.8 million, down \$6.4 million from the prior year. The UAAL for other post employment benefits was \$201.3 million, down \$16.5 million from the prior year. The changes in the UAAL are attributed to a combination of factors recognized over the last ten years. The contributing factors include recently recognized mortality changes, the under-funding by the City, benefit enhancements during better economic times, investment losses recognized during 2000, 2001, and 2008, and the change in the actuarial assumption rate of return from 8.5% to 8.0% implemented in fiscal 2002 and changed to 7.75% in 2009. Also, in fiscal 2005 the amortization period was changed from 40 to 30 years.

G SUBSEQUENT EVENTS

At its November 27th, 2012 meeting, City Council approved certain changes to the Newport News Employees' Retirement Fund. Effective January 1, 2013, the fund will become a contributory fund with the members contributing five (5) percent of covered compensation. The accrual rate for general employees (not including public safety employees) will decrease from 1.85% to 1.65% prospectively and the maximum retirement allowance percentage will increase by 1.85% each year to a maximum of 80% of annual final compensation. Effective July 1, 2013, the effective start date for any cost of living adjustments will be July 1st following the first twelve month anniversary of the employee's retirement, and the cost of living adjustments will 70% of the current formula.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**Schedule of Funding Progress (unaudited)
Year ended June 30, 2012**

Historical trend information is presented herewith as required supplementary information. An actuarial valuation is performed annually at fiscal year end. Information from the six most recent valuations is presented below. This information is intended to help users assess the Fund's funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Newport News Employee Retirement Fund (in millions):

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (underfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	\$ 680	\$ 1176	\$ (496)	58%	\$ 249	-199.2%
June 30, 2011	641	1,145	(504)	56%	262	-192.4%
June 30, 2010	638	1,110	(472)	57%	283	-166.8%
June 30, 2009	711	1,115	(404)	64%	314	-128.7%
June 30, 2008	772	1,030	(258)	75%	314	-82.2%
June 30, 2007	746	954	(208)	78%	305	-68.2%

Newport News Employees' OPEB Fund (in millions):

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (underfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	City	\$ 16	\$ 217	\$ (201)	7%	\$ 114	-177.20%
June 30, 2011	City	14	232	(218)	6%	119	-183.7%
June 30, 2010 *	City	10	237	(227)	4%	125	-181.7%
June 30, 2009 *	City	6	215	(209)	3%	136	-153.8%
June 30, 2008 *	City	9	194	(185)	5%	133	-138.4%
June 30, 2007	City	13	181	(168)	7%	133	-126.3%

* 2010, 2009 and 2008 restated due to incorrect reported numbers.

The market value of assets represents a "snap-shot" or "cash-out" value which provides the principal basis for measuring financial performance from one year to the next. Market value, however, can fluctuate widely with corresponding swings in the market place. Because these fluctuations would result in volatility in the resulting contributions if the market value were used, unadjusted, in the valuation process, an actuarial value is developed.

The actuarial values are market values which have been smoothed and are used for evaluating the Fund's ongoing liability to meet its obligations.

The actuarial value of assets is the current market value, adjusted by a three-year smoothing of appreciation and depreciation.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Schedule of Employer Contributions (Unaudited)

(in millions)

Year ended June 30, 2012

Newport News Employees' Retirement Fund (in millions):

Fiscal year ended	Annual required contribution	Actual contribution	Percentage contributed
2012	\$ 55.0	\$ 32.8	60%
2011	56.7	27.4	48%
2010	41.0	21.2	52%
2009	40.5	19.7	49%
2008**	38.0	16.4	43%
2007	51.1	23.3	46%

Newport News Employees OPEB Fund (in millions):

Fiscal year ended		Annual required contribution	Actual contribution	Percentage contributed
2012		\$ 17.9	\$ 10.9	61%
2011		18.3	11.8	64%
2010		13.4	12.1	90%
2009	City	12.5	9.2	74%
	NNSS	14.9	3.2	21%
2008**	City	11.7	6.9	59%
	NNSS	18.2	3.1	17%

** Beginning with June 30, 2008, pension and OPEB disclosures are reported separately.

See accompanying notes to required supplementary information.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Other Supplementary Information

**Schedule of Administrative Expenses
Year Ended June 30**

	Pension Fund		OPEB Fund	
	2012	2011	2012	2011
Personal services:				
Staff salaries	\$ 317,478	\$ 350,181	\$ -	\$ -
Benefits	148,671	108,643	-	-
Office expenses	52,720	40,689	-	-
Total personal services	<u>518,869</u>	<u>499,513</u>	<u>-</u>	<u>-</u>
Board fees				
Salaries	12,000	10,200	-	-
Benefits	960	940	-	-
Total board fees	<u>12,960</u>	<u>11,140</u>	<u>-</u>	<u>-</u>
Consultant fees				
Audit fees	-	-	10,000	5,000
Consultant fees	135,000	135,000	-	-
Benefit consulting	35,000	15,000	-	-
Legal fees	20,000	13,630	-	-
Total consultant fees	<u>190,000</u>	<u>163,630</u>	<u>10,000</u>	<u>5,000</u>
Actuary fees				
Total actuary fees	<u>54,662</u>	<u>37,090</u>	<u>11,997</u>	<u>12,000</u>
Total actuary fees	<u>54,662</u>	<u>37,090</u>	<u>11,997</u>	<u>12,000</u>
Medical disability exams				
Professional health services	<u>5,724</u>	<u>3,225</u>	<u>-</u>	<u>15,000</u>
Total medical disability exams	<u>5,724</u>	<u>3,225</u>	<u>-</u>	<u>15,000</u>
Total administrative expenses	<u>\$ 782,215</u>	<u>\$ 714,598</u>	<u>\$ 21,997</u>	<u>\$ 32,000</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

FINANCIAL SECTION

Other Supplementary Information

**Schedule of Investment Expenses
Year Ended June 30**

	Pension Fund		OPEB Fund	
	2012	2011	2012	2011
Manager fees	\$ 2,877,091	\$ 3,657,820	\$ 35,040	\$ 38,423
Custodain fees	1,413,093	314,694	23,096	24,665
Foreign tax	52,290	71,290	708	112
Actuary fees	984	8,178	-	-
Total investment expense	<u>\$ 4,343,458</u>	<u>\$ 4,051,982</u>	<u>\$ 58,844</u>	<u>\$ 63,200</u>

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September 12, 2012

The Board of Trustees of the City of Newport News
Virginia Employees' Retirement System
2400 Washington Street
Newport News, Virginia 23607

Ladies and Gentlemen:

The City of Newport News Virginia Employees' Retirement System was created to provide retirement benefits for those employees who have earned a pension from the City. The Trustees, to set up the plan in a prudent manner, have issued policy and guidelines for their advisors. Under these guidelines the System can invest in common and preferred stocks traded on any major exchanges, U.S. Government or agency issued bonds, corporate bonds rated A or better at the time of purchase, commercial paper rated A1-P1, mortgage and asset backed securities including collateralized mortgage obligations limited to unleveraged priority or sequential pay tranches and subject to the quality rating limitations for all debt securities, Rule 144-A corporate bonds rated A or better at the time of purchase with the rights of registration attached. International investment managers may purchase international equity securities in ADR form or in direct form. Additionally, private equity investments in domestic companies are now permitted.

To maintain a diversified plan, the Trustees have set forth certain limitations in the policy and guidelines document. The maximum of total bond holdings in any one corporation should not exceed 10% of the long-term indebtedness of that corporation. Managers should advise the Trustees if an equity holding exceeds 15% of the advisor's portfolio.

The System is well diversified by security, by asset class, by investment manager and investment manager style. Current policy (as revised August 2012) allows for a target investment in domestic equities of 42%, international equities of 11%, emerging markets of 10%, real estate 3.8%, timber of 8% and bonds of 25%.

The Trustees have engaged Dahab Associates, Inc. to calculate and monitor the returns on a regular basis. We have calculated the rates of return from monthly statements provided by the custodian bank. The returns are reported gross of management and custodian fees, but net of transactions costs. All returns are time weighted and comply with the ICFA's GIPS standards and the Bank Administration Institute's methodology. In the fiscal year ending June 30, 2012, the fund earned 1.3%. The System earned an annualized 1.6% return during the last five years, falling short of its long term investment objective of a nominal 7.75% return. However, it must

be noted that that period included the Recession of 2008 losses. Furthermore, we are aware of no retirement system that earned close to the 7.75% figure in that timeframe. Risk characteristics are calculated quarterly using appropriate statistical methodologies.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Richard E. Dahab', with a stylized flourish at the end.

Richard E. Dahab, CFA
President

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**Investment Performance, Policy, Statistics and Activity
Year Ended June 30, 2012**

The City of Newport News has created and funded an investment portfolio to provide retirement benefits for those employees who through their years of service have earned a right to a pension from the City. The purpose of this fund is to provide for the accumulation of money in an actuarially sound fashion so that the burden on taxpayers will be spread over the years of the employees' service. The Investment Policy and Guidelines have been designed to set forth the policies and guidelines for those who administer and invest the funds in the portfolio.

Investment Objectives

The Board of Trustees has adopted the Investment Policies and Guidelines, which outline the Fund's investment goals and objectives. In accord with a recent actuarial report, the Trustees have established long-term goals for the overall investment portfolio consistent with the liabilities of the fund. At a minimum, the fund in aggregate needs to earn a compound rate of return over a long period of 7.75%. Furthermore, the Trustees expect the fund to earn a real rate of return of at least 2.0% above the average rate of inflation as measured by the change in the Consumer Price Index (CPI) over a five-year period.

While the Trustees acknowledge that market conditions can produce short periods where such returns are impossible to achieve, the advisers are expected to contribute to meeting the long-term performance objectives of the system as well as others set forth in this document.

Asset Allocation

Based on the most current asset/liability simulation study, the Trustees feel that the following asset deployment will best be able to achieve the long-term goals of the system in terms of compound total rate of return and assumed risk:

Large Cap Equities	30.0%
Small Cap Equities	12.0
International Equities	11.0
Emerging Market Equities	10.0
Bonds	25.0
Timber	8.0
Real Estate	3.8
Cash	0.2

This target mix has been chosen for the aggregate total portfolio. From time to time the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations and overall residual cash positions be kept to a minimum.

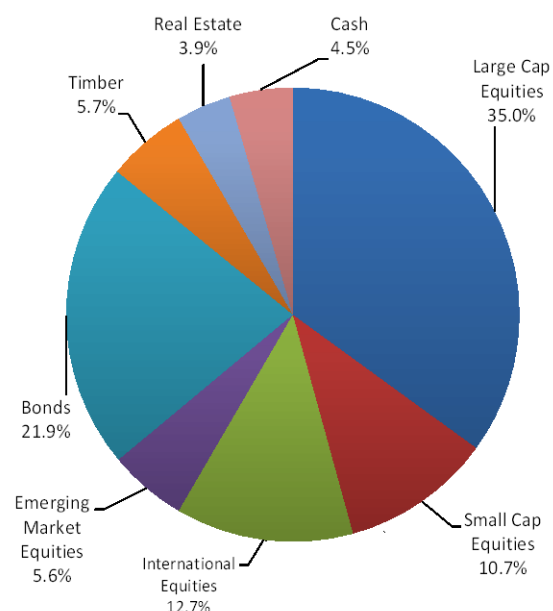
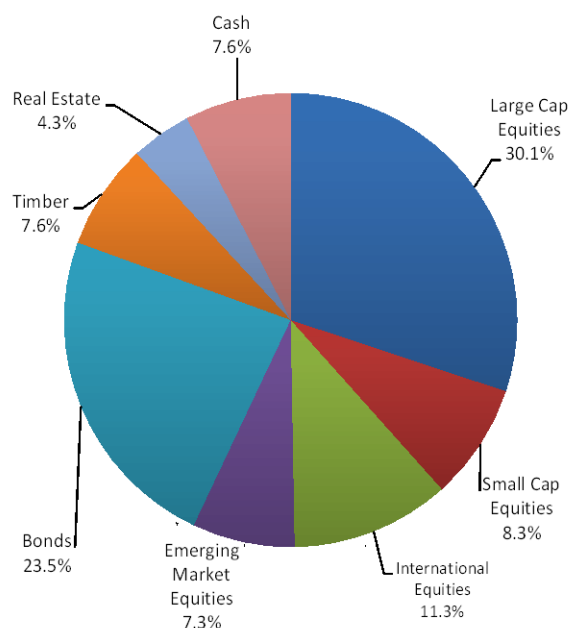
Each adviser has been apportioned funds assuming that he will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. The advisers have not been hired to time the market and are not authorized to hold substantial cash positions for extended periods of time.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

ASSET ALLOCATION BY ASSET CLASS - RETIREMENT

June 30, 2012 and 2011



2012	
Large Cap Equities	\$ 218,165,601
Small Cap Equities	60,204,901
International Equities	82,250,230
Emerging Market Equities	53,018,187
Bonds	170,489,324
Timber	54,960,146
Real Estate	31,251,917
Cash	54,920,834
	<u>\$ 725,261,140</u>

2011	
Large Cap Equities	\$ 254,383,852
Small Cap Equities	78,013,695
International Equities	92,228,350
Emerging Market Equities	40,453,549
Bonds	159,197,131
Timber	41,637,129
Real Estate	28,264,195
Cash	32,872,687
	<u>\$ 727,050,588</u>

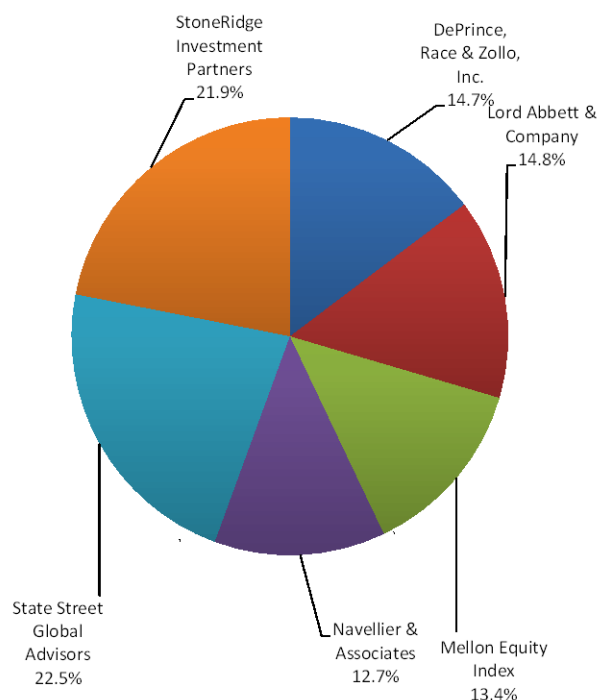
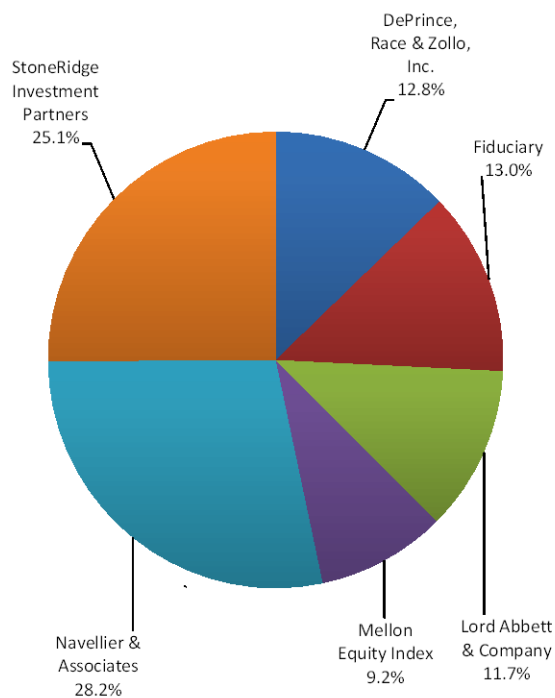
**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

Investment Managers and Investment Assignments - Retirement

Large Cap Equities

June 30, 2012 and 2011



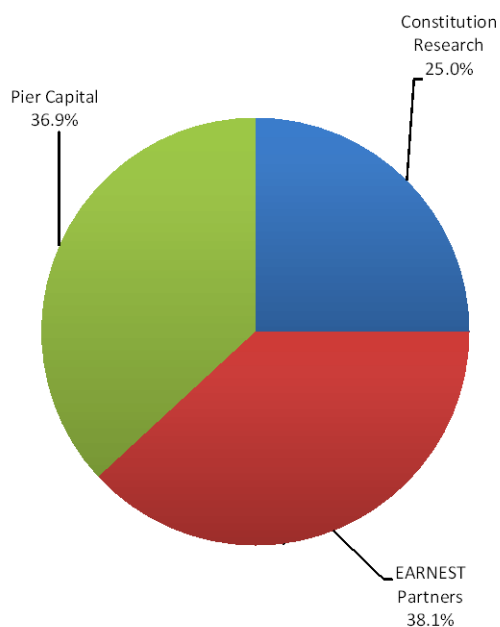
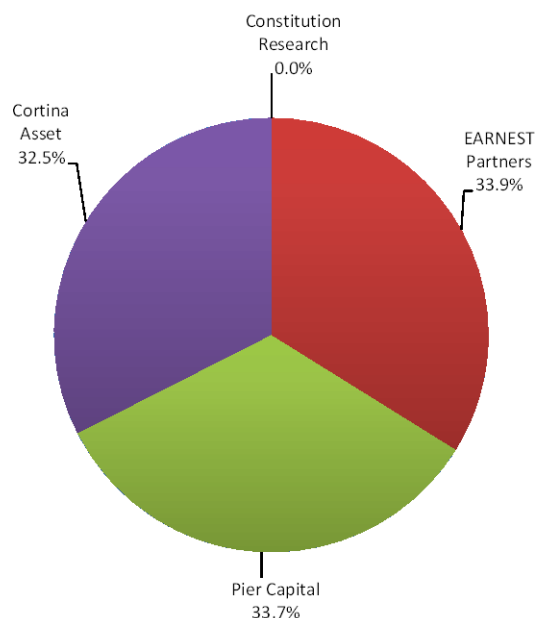
2012	
DePrince, Race & Zollo, Inc.	\$ 27,853,404
Fiduciary	28,392,557
Lord Abbett & Company	25,554,939
Mellon Equity Index	20,042,795
Navellier & Associates	61,546,959
StoneRidge Investment Partners	54,774,947
	<u>\$ 218,165,601</u>

2011	
DePrince, Race & Zollo, Inc.	\$ 37,410,844
Lord Abbett & Company	37,743,689
Mellon Equity Index	34,034,438
Navellier & Associates	32,220,968
State Street Global Advisors	57,208,765
StoneRidge Investment Partners	55,765,148
	<u>\$ 254,383,852</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**Small Cap Equities
June 30, 2012 and 2011**



2012	
Constitution Research	\$ 6
EARNEST Partners	20,386,980
Pier Capital	20,263,621
Cortina Asset	19,554,294
	<u>\$ 60,204,901</u>

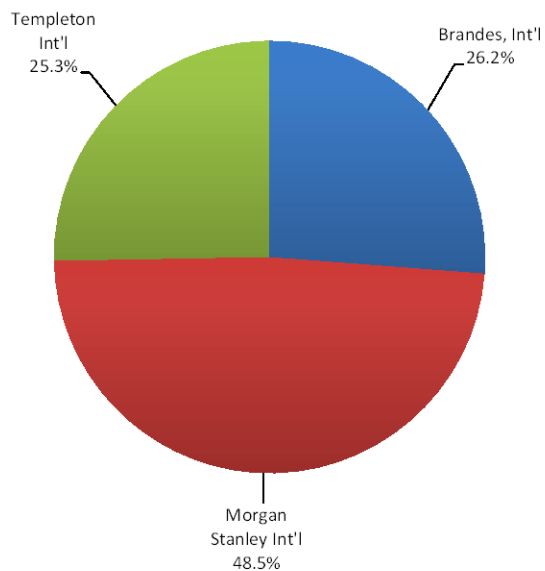
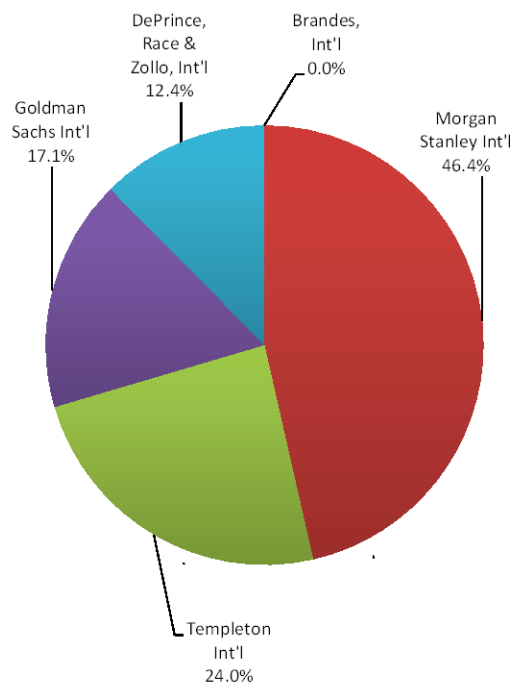
2011	
Constitution Research	\$ 19,497,981
EARNEST Partners	29,748,247
Pier Capital	28,767,467
Cortina Asset	-
	<u>\$ 78,013,695</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

International Equities

June 30, 2012 and 2011



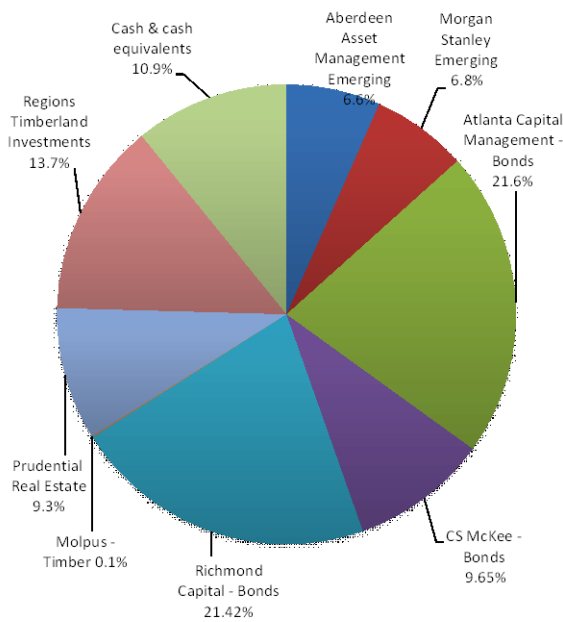
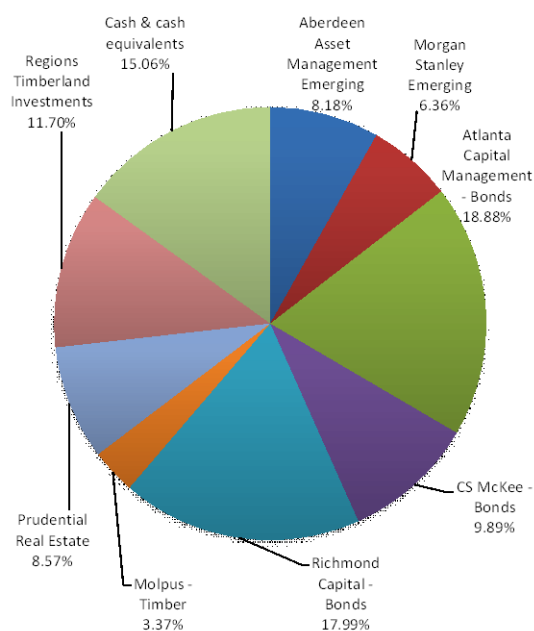
2012	
Brandes, Int'l	\$ -
Morgan Stanley Int'l	38,186,113
Templeton Int'l	19,748,841
Goldman Sachs Int'l	14,078,624
DePrince, Race & Zollo, Int'l	10,236,652
	<u>\$ 82,250,230</u>

2011	
Brandes, Int'l	\$ 24,178,760
Morgan Stanley Int'l	44,728,820
Templeton Int'l	23,320,771
Goldman Sachs Int'l	-
DePrince, Race & Zollo, Int'l	-
	<u>\$ 92,228,351</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**Emerging Market Equities, Bonds, Timber, Real Estate and Cash
June 30, 2012 and 2011**



2012	
Aberdeen Asset Management Emerging	\$ 29,840,882
Morgan Stanley Emerging	23,177,305
Atlanta Capital Management - Bonds	68,833,389
CS McKee - Bonds	36,050,940
Richmond Capital - Bonds	65,604,995
Molpus - Timber	12,299,412
Prudential Real Estate	31,251,917
Regions Timberland Investments	42,660,734
Cash & cash equivalents	54,920,834
	\$ 364,640,408

2011	
Aberdeen Asset Management Emerging	\$ 20,036,603
Morgan Stanley Emerging	20,416,945
Atlanta Capital Management - Bonds	65,218,778
CS McKee - Bonds	29,190,774
Richmond Capital - Bonds	64,787,579
Molpus - Timber	208,686
Prudential Real Estate	28,264,195
Regions Timberland Investments	41,428,443
Cash & cash equivalents	32,872,688
	\$ 302,424,691

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

SCHEDULE OF BROKER FEES AND COMMISSIONS - RETIREMENT

Year Ended June 30, 2012 and 2011

	Pension		Pension	
	Investments Under Management at 06/30/12	Fees	Investments Under Management at 06/30/11	Fees
Investment Managers				
Aberdeen Asset Management	\$ 29,840,882	\$ 574,162	\$ 20,036,603	\$ 180,513
Atlanta Capital Management	68,833,389	211,894	66,993,550	206,552
Brandes Int'l	-	186,798	24,737,202	278,316
Constitution Research	6	181,241	19,689,669	166,546
Cortina Asset Management	19,554,294	-	-	-
CS McKee	36,050,940	110,590	34,166,895	83,566
DePrince, Race & Zollo	27,853,404	214,936	37,567,800	230,512
DePrince, Race & Zollo Int'l	10,236,652	-	-	-
Earnest Partners	20,386,980	248,311	31,129,883	244,213
Fiduciary Management	28,392,557	217,736	38,420,199	76,332
Goldman Sachs	14,078,624	-	-	-
Lord Abbett & Company	25,554,939	245,265	35,623,788	251,022
Mellon Index	20,042,795	33,297	32,221,007	30,757
Molpus Timberland	12,299,412	-	208,686	1,314
Morgan Stanley Emerging	23,177,305	169,881	20,416,945	290,363
Morgan Stanley Int'l	38,186,113	224,732	44,728,820	345,467
Navellier & Associates	61,546,959	302,969	59,045,770	219,853
Pier Capital	20,263,621	284,895	30,989,092	305,653
Prudential Real Estate	31,251,917	338,649	28,264,195	311,936
Richmond Capital	65,604,984	215,304	65,624,133	200,261
Richmond II	-	-	-	60,342
Short-term Investments	11	-	-	-
SSgA Bond	-	-	-	2,237
StoneRidge Investment Partners	54,774,947	304,850	56,745,172	293,091
Templeton Int'l	19,748,841	-	23,320,771	-
TS & W	-	-	-	887
Timberland Investments	42,660,734	277,948	41,428,443	272,252
		<u>\$ 4,343,458</u>		<u>\$ 4,051,985</u>
Other Investment Services				
Investment Advisor				
Dahab Associates		<u>\$ 135,000</u>		<u>\$ 135,000</u>

NEWPORT NEWS EMPLOYEES' RETIREMENT FUND (PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)

INVESTMENT SECTION

SCHEDULE OF INVESTMENT RESULTS

The following schedule compares rates of return for the Pension Plan portfolio with appropriate benchmark indices.

The Pension Plan's rate of return calculations are time weighted and comply with the ICFA's Global Investment Performance Standards (GIPS) and are net of fees. All data are for periods ending June 30.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Annualized</u>	
									<u>3 year</u>	<u>5 year</u>
TOTAL FUND	10.8%	10.2%	16.7%	-3.4%	-19.1%	12.1%	22.0%	1.3%	11.5%	1.6%
Median Return **	8.8%	9.4%	16.3%	-4.1%	-16.6%	12.7%	21.1%	1.1%	11.4%	2.2%
Shadow Index ***	9.0%	10.1%	17.6%	-4.6%	-16.5%	10.5%	20.6%	1.6%	10.6%	1.4%
Inflation (CPI)	2.5%	4.3%	2.7%	5.0%	1.2%	1.1%	3.6%	1.8%	2.1%	2.0%
Large Cap Segment	9.2%	10.4%	17.8%	-8.1%	-28.1%	15.2%	32.5%	3.1%	16.3%	0.8%
S & P 500	6.3%	8.6%	20.6%	-13.1%	-26.2%	14.4%	30.7%	5.5%	16.4%	0.2%
Russell 1000 Growth	1.7%	6.1%	19.1%	-6.0%	-24.5%	13.6%	35.0%	5.8%	17.5%	2.9%
Russell 1000 Value	14.1%	12.1%	21.9%	-18.8%	-29.0%	16.9%	28.9%	3.0%	15.8%	-2.2%
Small Cap Segment	14.5%	13.2%	15.1%	-9.0%	-25.3%	24.7%	42.0%	-8.9%	17.3%	1.8%
Russell 2000	9.4%	14.6%	16.4%	-16.2%	-25.0%	21.5%	37.4%	-2.1%	17.8%	0.5%
Russell 2000 Growth	4.3%	14.6%	16.8%	-10.8%	-24.9%	18.0%	43.5%	-2.7%	18.1%	2.0%
Russell 2000 Value	14.4%	14.6%	16.1%	-21.7%	-25.3%	25.1%	31.3%	-1.4%	17.4%	-1.1%
International Segment	13.0%	22.8%	28.6%	-10.4%	-25.3%	5.0%	27.6%	-10.5%	6.2%	-4.3%
MSCI EAFE	14.1%	27.1%	27.5%	-6.5%	-31.0%	6.4%	30.9%	-13.4%	6.4%	-5.6%
Emerging Market Segment	34.2%	34.4%	45.5%	-0.2%	-30.3%	27.2%	28.2%	-4.5%	15.9%	1.6%
MSCI EMG MKT	34.7%	35.9%	45.5%	4.9%	-27.9%	23.5%	28.1%	-15.7%	10.1%	0.2%
Real Estate Segment	23.1%	21.5%	20.2%	7.0%	-42.4%	-6.6%	25.1%	16.0%	10.7%	-3.5%
NCREIF NFI-ODCE	17.6%	19.2%	17.7%	8.0%	-30.9%	-5.9%	20.5%	12.4%	8.4%	-0.9%
Timber Segment	-	-	-	-	-	-7.4%	8.0%	1.9%	0.6%	-
NCREIF Timber	14.1%	19.7%	11.9%	20.0%	3.3%	-3.5%	0.5%	1.1%	-0.7%	4.0%
Fixed Income Segment	7.1%	-0.5%	6.2%	4.9%	1.1%	15.0%	4.8%	8.3%	9.3%	6.7%
Barclays Aggregate	6.8%	-0.8%	6.1%	7.1%	6.1%	9.5%	3.9%	7.5%	6.9%	6.8%

* Periods greater than one year are shown annualized.

** Median Return from the total Client Universe

*** The Shadow Index is a custom index that matches the portfolio's asset allocation on a quarterly basis.

This index was calculated using the following benchmarks:

Large Cap Equity	S&P 500
Small Cap Equity	Russell 2000
International Equity	MSCI EAFE
Emerging Market	MSCI Emerging Markets
Real Estate	NCREIF Property Index
Timber	NCREIF Timber
Fixed Income	Barclays Aggregate Index
Cash & Equivalent	90-Day T Bills

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**Top Ten Equity Holdings
June 30, 2012**

<u>RANK</u>	<u>NAME</u>	<u>VALUE</u>	<u>% EQUITY</u>	<u>INDUSTRY SECTOR</u>
1	APPLE INC	\$ 4,538,848	1.75%	Computer Tech
2	INTEL CORP	3,123,353	1.21%	Computer Tech
3	MICROSOFT CORP	2,891,397	1.12%	Computer Tech
4	WAL-MART STORES INC	2,597,070	1.00%	Consumer Service
5	INTL BUSINESS MACHINES CORP	2,594,369	1.00%	Service
6	TARGET CORP	2,318,522	0.90%	Consumer Service
7	BERKSHIRE HATHAWAY INC-CL B	2,249,910	0.87%	Finance
8	JPMORGAN CHASE & CO	2,183,960	0.84%	Finance
9	VISA INC-CLASS A SHARES	2,174,652	0.84%	Finance
10	ALLIANCE DATA SYSTEMS CORP	2,160,000	0.84%	Service

**Top Ten Equity Holdings
June 30, 2011**

<u>RANK</u>	<u>NAME</u>	<u>VALUE</u>	<u>% EQUITY</u>	<u>INDUSTRY SECTOR</u>
1	CHEVRON CORP	\$ 4,934,366	1.48%	Energy
2	MICROSOFT CORP	4,254,718	1.28%	Computer Tech
3	APPLE INC	4,162,644	1.25%	Computer Tech
4	EXXON MOBIL CORP	3,500,235	1.05%	Energy
5	AMERISOURCEBERGEN CORP	3,429,949	1.03%	Service
6	WAL-MART STORES INC	2,681,072	0.81%	Consumer Service
7	TIME WARNER INC	2,565,612	0.77%	Consumer Service
8	GENERAL ELECTRIC CO	2,453,083	0.74%	Basic
9	UNITED PARCEL SERVICE-CL B	2,392,031	0.72%	Transportation
10	WELLS FARGO & CO	2,327,970	0.70%	Finance

A complete list of portfolio holdings is available upon request.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

SUMMARY OF INVESTMENTS

June 30, 2012 and 2011

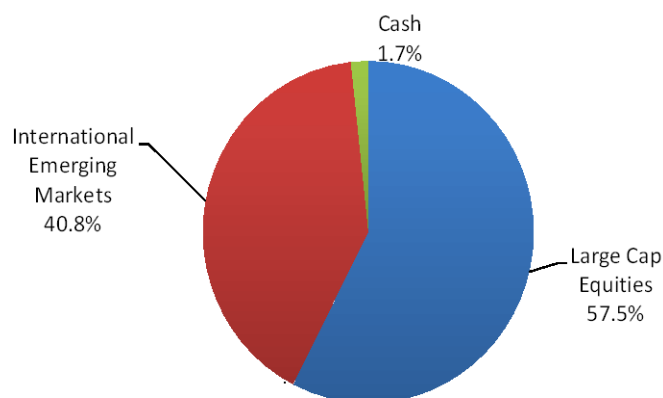
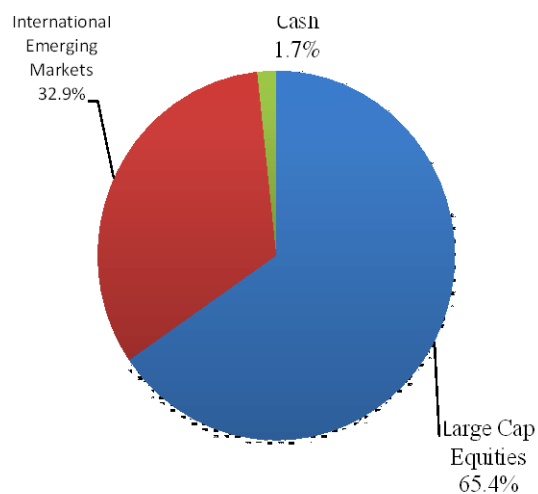
<u>Category of Investment</u>	<u>2012</u>		<u>2011</u>	
	<u>Fair Value</u> <u>6/30/2012</u>	<u>Percent of</u> <u>Total</u> <u>Fair Value</u>	<u>Fair Value</u> <u>6/30/2011</u>	<u>Percent of</u> <u>Total</u> <u>Fair Value</u>
Large Cap Equity	\$ 218,165,601	30.1%	\$ 254,383,852	35.0%
Small Cap Equity	60,204,901	8.3%	78,013,695	10.7%
International Equity	82,250,230	11.3%	92,228,350	12.7%
Emerging Markets	53,018,187	7.3%	40,453,549	5.6%
Real Estate	31,251,917	4.3%	28,264,195	3.9%
Timber	54,960,146	7.6%	41,637,129	5.7%
Fixed Income	170,489,324	23.5%	159,197,131	21.9%
Cash	54,920,834	7.6%	32,872,687	4.5%
Total Fund	<u>\$ 725,261,140</u>	<u>100.0%</u>	<u>\$ 727,050,588</u>	<u>100.0%</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

ASSET ALLOCATION BY ASSET CLASS - OPEB

June 30, 2012 and 2011



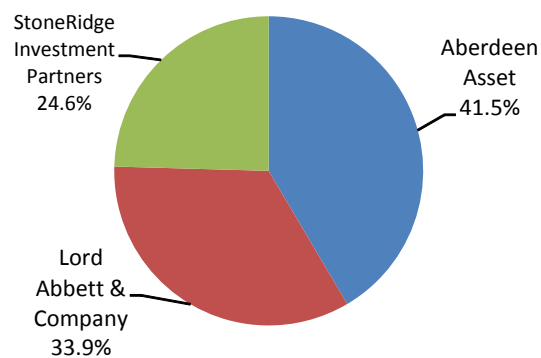
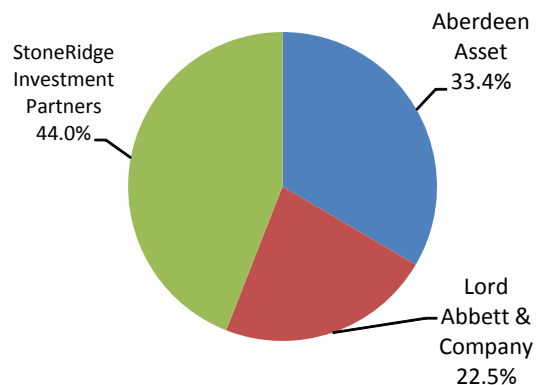
2012		
Large Cap Equities	\$	10,002,456
International Emerging Markets	\$	5,025,692
Cash		261,865
	\$	<u>15,290,013</u>

2011		
Large Cap Equities	\$	5,919,716
International Emerging Markets	\$	4,200,054
Cash		174,761
	\$	<u>10,294,531</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**Investment Managers and Investment Assignments - OPEB
Large Cap Equities and
International Emerging Markets
June 30, 2012 and 2011**



2012	
Aberdeen Asset	\$ 5,025,692
Lord Abbett & Company	3,383,515
StoneRidge Investment Partners	6,618,941
	<u>\$ 15,028,148</u>

2011	
Aberdeen Asset	\$ 4,200,054
Lord Abbett & Company	3,434,782
StoneRidge Investment Partners	2,484,934
	<u>\$ 10,119,770</u>

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

INVESTMENT SECTION

**SCHEDULE OF BROKER FEES AND COMMISSIONS - OPEB
Year Ended June 30, 2012 and 2011**

Investment Managers	Investments Under Management at 06/30/12		Investments Under Management at 06/30/11	
		Fees		Fees
Aberdeen Asset Management	\$	5,025,692	\$	-
Lord Abbett & Company		3,383,515		35,166
StoneRidge Investment Partners		6,618,941		23,678
		<u>\$ 58,844</u>		<u>\$ 63,199</u>

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October 22, 2012

CONFIDENTIAL – VIA ELECTRONIC MAIL

Board of Trustees
Newport News Employees' Retirement Fund
City of Newport News
City Hall, 2400 Washington Ave
Newport News, Virginia 23607

Re: 2012 Certification of Actuarial Valuation

Dear Members of the Board:

We certify that the information presented herein is accurate and shows fairly the actuarial position of the City of Newport News Employees' Retirement Fund (NNERF) as of July 1, 2012, and the actuarial position of the Post Retirement Health and Welfare Benefits Fund as of July 1, 2012.

The Actuarial Valuation was based on participant data submitted by the City of Newport News Employees' Retirement Fund staff, which we examined for reasonableness. The financial information used in the valuation was provided to us by the City of Newport News finance department.

Actuarial valuations to determine the funding requirements of the Funds are performed annually. The most recent Actuarial Valuation was done as of July 1, 2012 for the Retirement Fund and as of July 1, 2012 for the Postretirement Benefit Fund.

The Retirement Fund has been closed to new entrants. The Fund's required contribution rates are established which, over time, will gradually decrease in dollar amounts and gradually increase as a percent of the decreasing closed payroll, if assumptions are met and the required rate is contributed. The required contribution has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level dollar amortization of the unfunded actuarial accrued liability over a closed 30 year period from July 1, 2011.

The Post-Retirement Benefit Fund has also been closed to new entrants. The required contribution rates for the Post-Retirement Benefit Fund are established such that over time they will gradually decrease in dollar amounts and gradually increase as a percent of the decreasing closed payroll, if assumptions are met and the required rate is contributed. The required contribution has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level dollar amortization of the unfunded actuarial accrued liability over a closed 30-year period from July 1, 2010.



Board of Trustees
City of Newport News Employees' Retirement Fund
October 22, 2012

The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon recommendations made by the prior actuary. The assumptions and methods used for financial accounting purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans* and in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.

We prepared all of the schedules shown in the Actuarial Section which follows this letter. We also provided information to complete the Schedule of Funding Progress and Schedule of Employer Contributions, which appear in the Financial Section of the City of Newport News Annual Report. Figures shown for years prior to 2010 were prepared by the prior actuary.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This report was prepared exclusively for the Newport News Employees' Retirement Fund for the purpose described herein. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron

Stephen T. McElhaney, FCA, FSA
Principal Consulting Actuary

Margaret Tempkin, FSA
Principal Consulting Actuary

Attachments

CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012

ACTUARIAL ASSUMPTIONS AND METHODS

A. Long-Term Assumptions Used to Determine Plan Costs and Liabilities

1. Demographic Assumptions

a. Healthy Active Mortality

RP-2000 Male and Female Mortality Tables for Active Employees projected to 2010 by scale AA. There is no projection for future mortality improvement.

Sample Rates of Active Mortality		
Age	Male	Female
25	0.034%	0.018%
30	0.042	0.024
35	0.074	0.043
40	0.100	0.061
45	0.132	0.096
50	0.178	0.141
55	0.250	0.233
60	0.415	0.374
65	0.658	0.554

b. Healthy Inactive Mortality

RP-2000 Male and Female Mortality Tables for Healthy Annuitants projected to 2010 by scale AA.

Sample Rates of Active Mortality		
Age	Male	Female
50	0.446%	0.198%
55	0.487	0.326
60	0.697	0.590
65	1.165	0.986
70	1.909	1.592
75	3.286	2.594
80	5.821	4.277
85	10.324	7.292
90	17.620	12.778

CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012

ACTUARIAL ASSUMPTIONS AND METHODS

c. Disabled Inactive Mortality

RP-2000 Male and Female Mortality Tables for Active Employees projected to 2010 by scale AA with ages set forward 5 years.

Sample Rates of Disabled Inactive Mortality		
Age	Male	Female
50	0.487%	0.326%
55	0.697	0.590
60	1.165	0.986
65	1.909	1.592
70	3.286	2.594
75	5.821	4.277
80	10.324	7.292
85	17.620	12.778
90	26.219	19.065

d. Rates of Active Disability

Sample Rates of Active Disability			
Fire & Police		All others	
Age	Unisex	Male	Female
20	0.090%	0.060%	0.040%
30	0.090	0.060	0.060
40	0.130	0.090	0.071
50	0.355	0.282	0.175
59	0.800	1.050	0.750

50% of the disability retirements among fire and police are assume to be occupational and 10% of the disability retirements among all others are assume to be occupational.

CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012

ACTUARIAL ASSUMPTIONS AND METHODS

e. Termination of Employment (Prior to Normal Retirement Eligibility)

Percent of eligible active members terminating employment (not due to retirement, death, or disability) within the next year, based on the 2003-2008 fund experience as analyzed by the prior actuary.

General City and Waterworks	
For General City and Waterworks plan participants, 20% are expected to terminate during the first year of employment, 15% during the second year of employment, and 12% for the third year. Rates of withdrawal for plan participants who have at least 4 years of service follow the rates in this table:	
Age Nearest Birthday	4 years of Service & more
25	10.00%
35	7.68
45	3.54
55	2.52
65	1.32

Fire and Police	
For Fire and Police plan participants, 20% are expected to terminate during the first year of employment, 17.5% during the second year of employment, and 10% for the third year. Rates of withdrawal for plan participants who have at least 4 years of service follow the rates in this table:	
Age Nearest Birthday	4 years of Service & more
25	9.13%
35	3.13
45	1.28
55	0.83
65	0.00

Schools	
For School plan participants, 25% are expected to terminate during the first year of employment, 18% during the second year of employment, and 14% for the third year. Rates of withdrawal for plan participants who have at least 4 years of service follow the rates in this table:	
Age Nearest Birthday	4 years of Service & more
25	13.50%
35	8.99
45	4.89
55	4.11
65	4.49

CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012

ACTUARIAL ASSUMPTIONS AND METHODS

f. Retirement

Percent of eligible active members retiring within the next year, based on the 2003-2008 fund experience as analyzed by the prior actuary.

Firemen and Police¹		All other Members²	
Age	Rate	Age	Rate
55	15%	60	12%
56	15	61	12
57	15	62	19
58	20	63	19
59	20	64	19
60	20	65	23
61	20	66	23
62	45	67	23
63	45	68	23
64	45	69	23
65	100	70	100

- ¹ It is assumed that firemen and policemen who have 25 years of service will retire prior to age 50 based on the following rates:

Age	Rate
Ages 40-44	10%
Ages 45-49	15%
Ages 50-54	20%

- ² It is assumed that all other members with 30 years of service will retire prior to age 60 based on the following rates:

Age	Rate
Ages 47-49	14%
Ages 50-54	17%
Ages 55-59	16%

Vested terminations are assumed to retire at their earliest unreduced eligibility.

g. Family Composition

Female spouses are assumed to be three years younger than males. 85% of non-retired employees are assumed married for both male and female employees.

Actual marital characteristics are used for pensioners.

CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012

ACTUARIAL ASSUMPTIONS AND METHODS

2. Economic Assumptions

- | | |
|-------------------------------|-------|
| a. Rate of Investment Return: | 7.75% |
| b. Salary Increases: | 5.00% |
| c. Cost-of-Living Adjustment: | 1.90% |
| d. Inflation: | 2.80% |

3. Changes since Last Valuation

None.

ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Entry Age Normal Actuarial Cost method is used to determine costs. Under this funding method, a normal cost is determined as a level percent of pay individually for each active employee.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The portion of the actuarial accrued liability in excess of plan assets is amortized to develop an additional cost or savings which is added to each year's employer normal cost. Under this cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability.

2. Actuarial Value of Assets

For purposes of determining the unfunded actuarial accrued liability, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

The actuarial value of assets is the current market value, adjusted by a three-year smoothing of appreciation and depreciation, realized and unrealized.

3. Amortization Method

The unfunded actuarial accrued liability is amortized as a closed 30-year level dollar amount from July 1, 2011. This report projects the UAL to July 1, 2013 and then calculates the FYE2014 contribution which amortizes the UAL over 28 years.

4. Changes since Last Valuation

None.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ACTUARIAL ASSUMPTIONS AND METHODS

Economic Assumptions

- 1. Measurement Date:** July 1, 2012
- 2. Discount Rate:** 4.0% per year
- 3. Inflation:** 2.80%
- 4. Per Person Cost Trends:** Based upon the average inflation assumption of 2.8% and the formula for determining CPI increases, the per person cost trend rates are assumed to increase at a maximum rate of 1.9%. Note that we also assume the implicit subsidy grows at the same rate as the explicit subsidy reflecting the employer's policy of moving toward retiree premiums that reflect the full cost of retiree benefits.
- 5. Participant Contributions:** The following annual contribution rates are applied for the year beginning July 1, 2012 and are assumed to increase at the same rates as the per-person cost trends as shown above to value the city's portion of the liability. The City Rate represents the maximum premium contribution by the City towards the total premium. Health care trend rates that are larger than the 1.9% increase will be directly paid for by the retiree and thus not included in the City's liability.

Pre-Medicare Coverage Tier	City	Retiree	Total
Single	\$ 4,808	\$ 4,312	\$ 9,120
Single / Minor	7,812	7,008	14,820
Single / Spouse	10,977	9,795	20,772
Family	13,222	11,666	24,888

The maximum annual City contribution to a Medicare-eligible retiree is \$3,240 for all ages. The following rates are for grandfathered retirees:

Medicare Coverage Tier	City	Retiree	Total
Medicare Carveout	\$ 3,240	\$ 3,300	\$ 6,540
Med (65-69)	3,240	1,944	5,184
Med (70-74)	3,240	2,220	5,460
Med (75+)	3,240	2,388	5,628

Employees who retire after 7/1/2010 will be enrolled in the Medicare Supplement Plan F with Drug Card, and premiums are based on age.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ACTUARIAL ASSUMPTIONS AND METHODS

Medicare Coverage Tier	City	Retiree	Total
Age 65	\$ 3,240	\$ 780	\$ 4,020
Age 66	3,240	912	4,152
Age 67	3,240	996	4,236
Age 68	3,240	1,080	4,320
Age 69	3,240	1,152	4,392
Age 70	3,240	1,212	4,452
Age 71	3,240	1,284	4,524
Age 72	3,240	1,356	4,596
Age 73	3,240	1,428	4,668
Age 74	3,240	1,476	4,716
Age 75	3,240	1,668	4,908

Dental Coverage Tier	City	Retiree	Total
Single	\$ 235	\$ 53	\$ 288
Two or more persons	436	80	516
Three or more persons	752	136	888

Life insurance is provided at no cost to the retiree.

6. Salary Increase: 5.00%

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ACTUARIAL ASSUMPTIONS AND METHODS

Demographic Assumptions

- 1. Rates of Retirement:** Percent of eligible active members retiring within the next year, based on the 2003-2008 fund experience as analyzed by the prior actuary.

Firemen and Police ¹		All other Members ²	
Age	Rate	Age	Rate
55	15%	60	12%
56	15	61	12
57	15	62	19
58	20	63	19
59	20	64	19
60	20	65	23
61	20	66	23
62	45	67	23
63	45	68	23
64	45	69	23
65	100	70	100

- ¹ It is assumed that firemen and policemen who have 25 years of service will retire prior to age 50 based on the following rates:

Age	Rate
Ages 40-44	10%
Ages 45-49	15%
Ages 50-54	20%

- ² It is assumed that all other members with 30 years of service will retire prior to age 60 based on the following rates:

Age	Rate
Ages 47-49	14%
Ages 50-54	17%
Ages 55-59	16%

ACTUARIAL ASSUMPTIONS AND METHODS

- 2. Rates of Withdrawal:** Percent of eligible active members terminating employment (not due to retirement, death, or disability) within the next year, based on the 2003-2008 fund experience as analyzed by the prior actuary.

General City and Waterworks	
For General City and Waterworks plan participants, 20% are expected to terminate during the first year of employment, 15% during the second year of employment, and 12% for the third year. Rates of withdrawal for plan participants who have at least 4 years of service follow the rates in this table:	
Age Nearest Birthday	4 years of Service & more
25	10.00%
35	7.68
45	3.54
55	2.52
65	1.32

Fire and Police	
For Fire and Police plan participants, 20% are expected to terminate during the first year of employment, 17.5% during the second year of employment, and 10% for the third year. Rates of withdrawal for plan participants who have at least 4 years of service follow the rates in this table:	
Age Nearest Birthday	4 years of Service & more
25	9.13%
35	3.13
45	1.28
55	0.83
65	0.00

- 3. Rates of Disability Retirement:** Sample rates are as follows:

Firemen and Police	
Age	Unisex Rate
20	0.09%
30	0.09
40	0.13
50	0.36
59	0.80

All other Members		
Age	Male	Female
20	0.06%	0.04%
30	0.06	0.06
40	0.09	0.07
50	0.28	0.18
59	1.05	0.75

It is assumed that 50% of the disability retirements among firemen and policemen will be occupational. And 10% of the disabilities among all other members will be occupational.

ACTUARIAL ASSUMPTIONS AND METHODS

4. Rate of Mortality:

a. Non-retired Members:

RP-2000 Mortality Table for active employees projected to 2010 by Scale AA, separate for males and females. There is no projection for future mortality improvement.

b. Retired Members:

RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA, separate for males and females. There is no projection for future mortality improvement.

c. Disabled Mortality:

RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA, separate for males and females set forward 5 years. There is no projection for future mortality improvement.

5. Percent of Retirees Electing Coverage: 85% of eligible retirees are assumed to participate in retirement. 60% are assumed to cover a spouse.

6. Family Composition: Assume 85% of members are married at retirement.

7. Dependent Age: For current active employees, males are assumed to be three years older than female spouses. For current retirees, actual spouse date of birth was used, if known. Otherwise, males were assumed to be three years older than female spouses.

8. Changes since Prior Valuation: None.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ACTUARIAL ASSUMPTIONS AND METHODS

Claim and Expense Assumptions

1. **Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions are applicable from July 1, 2012 to June 30, 2013. Subsequent years' costs are based on the first year cost adjusted with trend.

Pre-Medicare Retirees and Spouses:

<u>Age</u>	<u>Medical</u>		<u>Pharmacy</u>		<u>Admin</u>	<u>Total</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>All</u>	<u>Male</u>	<u>Female</u>
40	\$2,634	\$4,942	\$859	\$1,267	\$395	\$3,888	\$6,604
45	\$3,215	\$5,024	\$1,159	\$1,549	\$395	\$4,769	\$6,968
50	\$4,193	\$5,751	\$1,600	\$2,044	\$395	\$6,188	\$8,190
55	\$5,475	\$6,659	\$2,137	\$2,630	\$395	\$8,007	\$9,684
60	\$7,145	\$7,879	\$2,749	\$3,209	\$395	\$10,289	\$11,484
64	\$8,966	\$9,231	\$3,196	\$3,490	\$395	\$12,557	\$13,116

Medicare-eligible Retirees and Spouses:

The maximum subsidy paid by the City for Medicare-eligible retirees and spouses is \$3,240 per year for medical coverage. Dental claims for Medicare-eligible participants are assumed to be \$331 at every age.

2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B Premiums:** Assumed that Medicare eligible retirees pay the Medicare Part B premiums.
4. **Medicare Eligibility:** Age 65
5. **Annual Limits:** Assumed to increase at the same rate as trend.
6. **Lifetime Maximums:** Unlimited
7. **Geography:** Implicitly assumed to remain the same as current retirees.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ACTUARIAL ASSUMPTIONS AND METHODS

Methodology

The Projected Unit Credit Actuarial Cost Method was used to value the Plan's actuarial liabilities and to set the normal cost. Under this method, benefits are projected for life, and their present value is determined. The present value is divided into equal parts, which are earned from date of hire to each decrement age. A closed 30-year amortization period from July 1, 2010 was used. The remaining amortization period at July 1, 2012 is 28 years. The amortization method is a level dollar amortization method. Assets are valued at market value.

The claims costs were developed using July 1, 2010 to June 30, 2011 retiree experience paid through June 30, 2012. Expenses were based on projection using contractual rates and projected costs. From this data, we developed per person per month (PPPM) costs and then adjusted those using age curves. The rates were then trended forward to the period July 1, 2010 to June 30, 2013 using an annual trend assumption of 8% for medical, 8% for pharmacy, and 7.0% for dental.

Changes since Last Valuation

The claim curves were adjusted based on actual experience.

**CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012**

PARTICIPANT DATA

**City of Newport News Employees' Retirement Fund Distribution of
Active Members by Age and Service as of June 30, 2012**

COUNTS BY AGE/SERVICE											
Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	0	27	2	0	0	0	0	0	0	0	29
25 to 29	0	181	142	0	0	0	1	0	0	0	324
30 to 34	0	158	369	46	0	0	0	0	0	0	573
35 to 39	0	124	261	175	30	3	0	0	0	0	593
40 to 44	0	113	256	223	149	69	1	0	0	0	811
45 to 49	0	96	268	208	129	146	73	9	0	0	929
50 to 54	0	91	241	224	120	162	143	49	11	0	1,041
55 to 59	0	43	175	213	162	161	93	89	21	3	960
60 to 64	0	36	114	130	79	81	55	34	13	4	546
65 to 69	0	18	37	42	18	15	13	8	5	2	158
70 & up	0	6	8	11	6	5	2	1	1	3	43
Total	0	893	1,873	1,272	693	642	381	190	51	12	6,007

**City of Newport News Employees' Retirement Fund Distribution of
Active Members by Age and Service as of June 30, 2012**

AVERAGE SALARY BY AGE/SERVICE											
Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	\$0	\$31,948	\$34,921	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$32,153
25 to 29	\$0	\$37,093	\$36,635	\$0	\$0	\$0	\$17,537	\$0	\$0	\$0	\$36,832
30 to 34	\$0	\$36,606	\$39,394	\$37,260	\$0	\$0	\$0	\$0	\$0	\$0	\$38,454
35 to 39	\$0	\$35,189	\$38,961	\$45,562	\$46,222	\$45,853	\$0	\$0	\$0	\$0	\$40,522
40 to 44	\$0	\$35,440	\$38,476	\$42,445	\$48,118	\$52,140	\$64,197	\$0	\$0	\$0	\$42,110
45 to 49	\$0	\$34,873	\$37,151	\$36,610	\$45,748	\$49,869	\$52,720	\$68,733	\$0	\$0	\$41,516
50 to 54	\$0	\$36,529	\$34,620	\$36,534	\$40,894	\$45,370	\$54,998	\$61,033	\$60,873	\$0	\$41,915
55 to 59	\$0	\$34,080	\$36,246	\$36,880	\$45,212	\$44,036	\$52,456	\$62,379	\$71,855	\$76,575	\$44,007
60 to 64	\$0	\$37,990	\$38,661	\$37,824	\$41,802	\$49,613	\$53,453	\$58,577	\$58,312	\$53,226	\$43,802
65 to 69	\$0	\$27,435	\$26,684	\$32,963	\$36,581	\$47,020	\$51,670	\$56,068	\$75,112	\$74,295	\$37,176
70 & up	\$0	\$27,221	\$31,198	\$15,563	\$27,814	\$29,103	\$40,025	\$38,929	\$41,729	\$54,352	\$28,378
Total	\$0	\$35,712	\$37,434	\$38,742	\$44,469	\$47,235	\$53,452	\$61,263	\$65,763	\$62,856	\$41,375

**CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012**

PARTICIPANT DATA

Schedule of Active Member Valuation Data (NNERF Total)				
Valuation Date June 30,	Number of Active Members	Annual Salaries of Active Members	Average Annual Pay	Percentage Increase in Average Pay
2012	6,007	\$ 248,539,885	\$ 41,375	1.75%
2011	6,438	261,789,409	40,663	1.43
2010	7,062	283,088,972	40,086	0.87
2009*	7,971	316,786,445	39,742	1.15
2008*	8,084	317,610,576	39,289	1.71
2007*	8,104	313,012,524	38,624	5.04
2006*	7,717	283,775,197	36,773	2.37

*Calculated by Prior Actuary

Schedule of Inactive Participants							
	General	Fire & Police	Waterworks	Non-VRS	VRS	NNERF Total	Total Less VRS
Retirees	857	621	174	650	2,144	4,446	2,302
Disableds	48	18	7	30	20	123	103
Beneficiaries	<u>125</u>	<u>87</u>	<u>32</u>	<u>70</u>	<u>124</u>	<u>438</u>	<u>314</u>
Total Inpay	1,030	726	213	750	2,288	5,007	2,719
Annual Benefits	21,160,235	20,389,578	4,804,674	5,989,195	9,565,771	61,909,453	52,343,682
Term Vested	600	223	107	169	952	2,051	1,099

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

<u>Year Ended</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		<u>% Increase in</u>		<u>% Increase in</u>	
	<u>No.</u>	<u>Annual Allowances*</u>	<u>No.</u>	<u>Annual Allowances*</u>	<u>No.</u>	<u>Annual Allowances*</u>	<u>Annual Allowances</u>	<u>Average Annual Allowances</u>	<u>Average Allowances</u>	<u>Allowances</u>
6/30/2012	406	\$5,354,281	117	\$969,011	5,007	\$61,909,453	7.6%	\$12,365		1.4%
6/30/2011	196	3,163,528	120	795,098	4,718	57,524,183	4.3%	12,192		2.6%
6/30/2010	535	5,545,790	224	1,773,694	4,642	55,155,753	-14.3%	11,882		-20.1%
6/30/2009	381	8,783,532	125	1,288,536	4,331	64,395,264	13.2%	14,868		6.6%
6/30/2008	452	6,346,440	89	189,492	4,081	56,900,268	12.1%	13,943		1.8%
6/30/2007	289	12,934,476	106	1,213,320	3,704	50,743,319	30.0%	13,700		22.8%
6/30/2006	382	5,484,996	80	670,152	3,497	39,022,162	14.1%	11,159		8.3%
6/30/2005	323	8,776,488	150	2,250,384	3,320	34,207,317	23.6%	10,303		16.9%
6/30/2004	264	3,242,220	51	14,064	3,141	27,681,215	13.2%	8,813		5.5%
6/30/2003	265	24,584,364	106	131,304	2,928	24,453,060		8,351		

* Includes post-retirement adjustments.

The valuation years prior to 6/30/2010 were performed by the prior actuary. We have not verified these numbers. The prior CAFR statement stated annual allowances, when in fact what were actually shown were monthly amounts. We have annualized them here in our exhibit.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

PARTICIPANT DATA

Active Participant Data as of July 1, 2012

Age Group	Eligible Active Employees Years of Service								Total
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	
Under 25	22	2	0	0	0	0	0	0	24
25 to 30	111	69	0	0	0	0	0	0	180
30 to 35	94	138	17	0	0	0	0	0	249
35 to 40	73	103	70	19	2	0	0	0	267
40 to 45	45	101	86	93	43	1	0	0	369
45 to 50	31	95	70	69	81	55	8	0	409
50 to 55	43	75	78	53	65	76	38	8	436
55 to 60	20	49	77	66	53	48	35	19	367
60 to 65	13	28	34	25	28	24	14	7	173
Over 65	6	10	16	8	8	7	5	7	67
Total	458	670	448	333	280	211	100	41	2,541

Average age of active population: 45.9 years

Average service of active population: 13.6 years

Schedule of Active Member Valuation Data (NNERF Total)				
Valuation Date June 30*,	Number of Active Members	Annual Salaries of Active Members	Average Annual Pay	Percentage Increase in Average Pay
2012	2,541	\$ 113,627,721	44,718	0.81%
2011	2,674	118,611,704	44,357	2.51
2010	2,886	124,877,181	43,270	8.88
2009**	7,971	316,786,445	39,742	1.15
2008**	8,084	317,610,576	39,289	1.71
2007**	8,104	313,012,524	38,624	5.04

*Valuations prior to 2010 contained members of the Newport News Public Schools OPEB Plan.

**Calculated by Prior Actuary

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

PARTICIPANT DATA

Retired Beneficiary Participant Data as of July 1, 2012

	Retirees and Spouses		
	Under Age 65	Age 65 +	Total
Medical Coverage			
Retirees & Widows	588	683	1,271
Spouses of Retirees	<u>348</u>	<u>435</u>	<u>783</u>
Total	936	1,118	2,054
Dental Coverage			
Retirees & Widows	633	693	1,326
Spouses* of Retirees	<u>450</u>	<u>315</u>	<u>765</u>
Total	1,083	1,008	2,091
Life Insurance	757	959	1,716

*Some spouse ages estimated.

SUMMARY OF BENEFITS

1. Membership

Membership in the Fund is compulsory for all City and School Board employees as per the code of ordinances for the City of Newport News, Chapter 31 – Pensions and Retirement. All employees hired by the city prior to March 1, 2010 will be included as members. All employees hired by the school board prior to July 1, 2009 will be included as members. Rehires and new hires after these dates will be members of the Virginia Retirement System (VRS).

Elected officials who are elected prior to March 1, 2010 and all employees of elected officials hired prior to March 1, 2010 who elected to be in the Fund will be members.

2. Contributions

The Employer is responsible for all contributions to the Fund.

3. Credited Service

Service used to determine the amount of retirement benefit. One month of credited service is earned for each month where the member accrued 15 days of service. One year of credited service is earned for every 12 months of service, except for school employees, who earn one year of service for the completion of one school year if it is 10 or more months. Credited service required for vesting is five (5) years for members whose most recent termination of service is on or after July 1, 1985.

4. Average Final Compensation

Average Final Compensation is the average of any 36 consecutive months (or shorter period of total service) of compensation paid to the member. Compensation is specifically defined in law.

5. Normal Retirement

Public Safety Employees:

Eligibility: 25 years of credited service, or 50 years of age and 5 years of credited service, for police and firemen.

SUMMARY OF BENEFITS

Benefit: Non VRS participants, 2% of final average compensation for each year of credited service prior to March 1, 2010 and 1.85% after. For VRS participants, 0.3% of final average compensation prior to March 1, 2010 and 0.15% after. Minimum benefit of \$330 per year and maximum benefit of 75% of final average compensation.

Other Employees:

Eligibility: 30 years of credited service, or 60 years of age and five years of credited service for all others.

Benefit: Non VRS participants, 2% of final average compensation for each year of credited service prior to March 1, 2010 and 1.85% after. For VRS participants, 0.3% of final average compensation prior to March 1, 2010 and 0.15% after. Minimum benefit of \$330 per year and maximum benefit of 75% of final average compensation.

6. Early Retirement

Other Employees:

Eligibility: 25 years of credited service for non-police and firemen. Police and firemen are not eligible for an early retirement option.

Benefit: Normal retirement benefit calculated using highest average compensation and service credit at early retirement, reduced by 0.5% for each month the retirement precedes the earliest month of eligibility for normal retirement.

7. Disability Retirement

Occupational Disability:

Eligibility: VRS participants are ineligible for the benefits provided under this section. All other members are eligible.

Benefit: For occupational disability, 2/3 of the member's annual compensation at the time of disability less Virginia Worker's Compensation Act, less 1/2 of the disability benefits received from Social Security.

Non-occupational Disability:

SUMMARY OF BENEFITS

- Eligibility:** VRS participants are ineligible for the benefits provided under this section. Vested members who are not eligible for regular service retirement, and who are totally and permanently disabled from a non-occupational event. Non-vested members are not eligible for non-occupational disability benefits.
- Benefit:** For non-occupational disability, 20% of average final compensation for the first five years of credited service plus 1% of average final compensation for each year of credited service in excess of five years.

8. Survivor's Benefit

- Eligibility:** Active or retired member.
- Benefit:** For occupational deaths while an active employee, a monthly survivor benefit to the surviving spouse equal to 60% of the employee's annual compensation at time of death, until death or remarriage of the spouse. An additional 10% is paid for each surviving dependent child, up to a maximum of 80%. In addition, there is a lump sum payment of \$550 for each year of credited service, with a minimum of \$550 and a maximum of \$3,300.

For non-occupational deaths while an active employee, the member's spouse will receive (or, if there is no surviving spouse or after the surviving spouse dies, each dependent child for as long as they remain dependent children will equally receive) a benefit that is equal to 50% of the benefit the member would have received had the member been vested and retired on the date of death, irrespective of eligibility. In addition, there is a lump sum payment equal to the lump sum payment for an occupational death.

For the death of a retired member, the surviving spouse (or, if there is no surviving spouse or after the surviving spouse dies, each dependent child for as long as they remain dependent children will equally receive) a \$3,300 lump sum benefit and 50% of the member's annual retirement benefit at time of death as a life annuity.

For the death of a terminated vested participant, the member's spouse will receive (or, if there is no surviving spouse or after the surviving spouse dies, each dependent child for as long as they remain dependent children will equally receive) a benefit that is equal to 50% of the benefit the member would have been entitled had the member started receiving benefits on the date of attainment of the earliest retirement age. The benefit provided by

SUMMARY OF BENEFITS

this subsection shall not commence until such time as the deceased member would have been eligible to retire based on age. No lump sum payment payable.

9. Vesting

Eligibility: Five years of credited service.

Benefit: Accrued normal retirement benefit deferred to age 60 (age 50 for police and firemen).

10. Post Retirement Benefit Increases

Retirement allowances and benefits paid to each recipient shall be increased by one (1) percent for each one (1) percent of the first one (1) percent increase in the United States Average Consumer Price Index (Urban) for all items as published by the Bureau of Labor Statistics of the United States Department of Labor for the most recent calendar year over the corresponding annual average for the immediately preceding calendar year and one-half ($\frac{1}{2}$) percent for each one (1) percent of increase over the first one (1) percent of increase up to a maximum increase of three and one-half ($3\frac{1}{2}$) percent.

11. Changes since Last Valuation

None.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

SUMMARY OF BENEFITS

Eligibility

Employees are eligible to retire and receive postretirement medical, dental, and life insurance benefits at the earlier of:

1. Age 60 (or age 50 for police and firemen) with at least five years of service
2. 30 years of service,
3. 25 years of service if police or firemen

Effective 3/1/2010 the plan was closed to new hires.

Benefits

For Non-Medicare Eligible Retirees, this Plan provides a Preferred Provider Organization (PPO) Plan that includes both in- and out-of-network benefits. Medicare-eligible retirees are offered a Medicare Supplement Plan with a drug card.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

SUMMARY OF BENEFITS

Benefit Plans Summarized
City of Newport News Anthem KeyCare Plan

Provider Network:	Anthem KeyCare 20
<u>In-Network (INN)Benefits</u>	
Deductible (Individual / Family)	\$0
Copays (Apply to OOP max)	
Office Visit (OV)-Primary Care(PCP)	\$20
OV - Specialist Care Provider (SCP)	\$40
Urgent Care (UC)	\$20 / \$40
Hospital Emergency Room (ER)	\$100 per visit
Outpatient Surgery	\$100 per visit
Hospital Inpatient	\$400 per Stay
Out-of-Pocket Max (Individual / Family)	\$2,000 / \$4,000
<u>Benefits Out-of-Network (OON)</u>	
Deductible (Individual / Family)	\$500 / \$1,000
Coinsurance	30%
Out-of-Pocket (OOP) Max (Individ / Family)	\$4,500 / \$9,000
<u>Lifetime Max (INN/OON)</u>	No Limit
<u>Prescription Drug</u>	
Retail (30 Day Supply) - Tier 1/Tier II/Tier III Copay	\$10 / \$30 / \$50
Mail-Order (90 Day Supply) - Tier 1/Tier II/Tier III Copay	\$20 / \$60 / \$100
<u>Detail Benefits</u>	
Mental Health (MH) / Substance Abuse (SA):	
-Inpatient Treatment	no charge per stay
-Outpatient Treatment	\$20 / \$40
Rehabilitation (i.e., speech, occup. physical):	30 visit limit
Chiropractors:	\$20 / \$40
Hearing - Routine Care	\$2,400 limit every 48 months
Preventive Care:	\$0
<u>Medicare Integration:</u>	Supplement plan with drug card
<u>Medical Management</u>	
PCP referral to specialists required:	No
Inpatient:	Yes
Outpatient:	Yes
Case Management:	Yes
Disease Management:	No
Wellness	No
Nurse-Line / Informed Decision Support:	No

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

SUMMARY OF BENEFITS

Delta Dental PPO Plus Premier

Provider Network:	In-Network PPO	In-Network Premier	Out of Network
Annual Deductible	\$50	\$50	\$50
Annual Benefit Maximum	\$2,500	\$2,500	\$2,500
Orthodontic Lifetime Maximum	\$1,500	\$1,500	\$1,500
Paid by Delta Dental for:			
Diagnostic / Preventative care (exempt from deductible and maximum)	100%	100%	100%
Basic Dental Care	80%	80%	80%
Major Dental Care	50%	50%	50%
Orthodontic Benefits (exempt from deductible)	50%	50%	50%

Cost Sharing

Health and Dental Insurance: City retirees may continue only health/dental coverage, if any, if in effect as of date of retirement. Increases in plan coverage are **not** allowed but decreases are allowed. When reaching age 65, city retirees and/or spouses are required to obtain part A and B of Medicare and the post-retirement benefit will consist of the Medicare carve-out plan. A spouse of a deceased city retiree who is eligible to receive a monthly spousal annuity may continue the medical and/or dental benefits coverage through the fund.

1. Qualified city employees who are eligible to retire based on age or service before July 1, 2005, are entitled to receive a fund contribution of 75% of the retirement-insurance premium.
2. Qualified city employees who are not eligible to retire based on age or service before July 1, 2005 are entitled to receive a graduated percentage of the premium paid by the fund, depending on the years of city employment, as follows:

Years of Credited Service	% of the Dollar Amount Paid by the Fund
Less than 11	0
11	5
12	10
13	15
14	20
15	25
16	31
17	37
18	43
19	49
20	55
21	64
22	73
23	82
24	91
25	100

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

SUMMARY OF BENEFITS

3. The dollar amount of the premium paid by the City was capped on June 30, 2005 with an annual COLA thereafter equal to inflation up to 1 percent plus half the inflation rate above 1 percent.
4. Current employees with 10 or more years of service as of March 1, 2010 will not have a change to the current City premium contribution provision above.
5. Current employees with less than 10 years of service as of March 1, 2010:
 - a. Retiree-single coverage level – No change to the City’s current premium contribution provision.
 - b. All other coverage levels – Establish a new dollar cap on the City’s premium contribution, calculated at 60% of the March 1, 2010 total premium.
 - i. Annual COLA equal to inflation up to 1 percent plus half the inflation rate above 1 percent added to capped City’s premium contribution
 - ii. City’s premium contribution based on years of service at retirement
 - a) Less than 10 years = 0% City contribution
 - b) 10 – 14 years = 25% City contribution
 - c) 15 – 19 years = 50% City contribution
 - d) 20 – 24 years = 75% City contribution
 - e) 25 years or greater = 100% City contribution
6. Employees hired on or after March 1, 2010 will participate in a Health Reimbursement Arrangement. The City will contribute 3% of the average City employees’ salary. There will not be any City premium contribution at retirement. Funds are invested in the employee’s name. We understand employees hired on or after March 1, 2010 will not have an implicit subsidy and that the City will rate these retirees separately.

Life Insurance

All active City employees who are eligible to retire with age or service before July 1, 2005 will have one-half their salary in life insurance coverage after retirement. All active City employees who are not eligible to retire with age or service before July 1, 2005 will initially have life insurance coverage equal to one-half their salary upon retirement. This coverage will decrease 20% per year but will not reduce below \$10,000.

SOLVENCY TEST

The City of Newport News Employees' Retirement fund funding objective is to be able to pay long-term benefit promises through contributions determined as a percent of salaries earned by members. In this way, City of Newport News in each year contributes towards retirement service accrued in that year by Retirement Fund members.

If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – the ultimate test of financial soundness.

A short-term solvency test is one means of checking Newport New Employees' Retirement Fund's funding progress. In a short-term solvency test, the retirement Fund's present valuation assets are compared with: 1) active member contributions on deposit, 2) the liabilities for future benefits to persons who have retired and the liabilities for terminated employees with vested benefits, and 3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1), the liabilities for future benefits to present retirees and the liabilities for future benefits for terminated employees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be at least partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time; however, a decrease generally occurs in those years when substantial benefit improvements are granted, when full recommended contributions have not been made, or when they are actuarial experience losses. The funded ratio of the System based on total actuarial accrued liabilities (1+2+3) provides an indication of how well the System is funded.

The schedule below illustrates the progress of funding the accrued actuarial liabilities of City of Newport News Employees' Retirement Fund.

**CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
ACTUARIAL VALUATION AS OF JULY 1, 2012**

SOLVENCY TEST

Date	Actuarial Accrued Liabilities and Valuation Assets				Portion of Actuarial Accrued Liabilities Covered by Reported Assets				
	Active Member Contributions (Liability 1)	Retirees, Beneficiaries and Terminated Vested Members (Liability 2)	Employer Financed Portion of Active Members (Liability 3)	NNERF Total Liability (1+2+3)	Reported Assets ¹	(1)	(2)	(3)	Funding Ratio of Total Accrued Actuarial Liabilities
7/1/2000	\$ 0	\$ 167,417,100	\$ 279,228,690	\$ 446,645,790	\$ 608,634,547	0.0%	100.0%	160.6%	136.3%
7/1/2001	0	179,364,939	354,255,695	533,620,634	635,859,569	0.0%	100.0%	132.9%	119.2%
7/1/2002	0	222,908,935	378,241,626	601,150,561	620,890,873	0.0%	100.0%	105.7%	103.3%
7/1/2003	0	254,590,576	421,828,130	676,418,706	584,553,243	0.0%	100.0%	77.0%	86.4%
7/1/2004	0	277,546,098	448,416,437	725,962,535	586,410,600	0.0%	100.0%	66.2%	80.8%
7/1/2005	0	312,646,067	521,165,703	833,811,770	625,216,418	0.0%	100.0%	52.9%	75.0%
7/1/2006	0	442,861,180	451,979,661	894,840,841	682,591,211	0.0%	100.0%	53.0%	76.3%
7/1/2007	0	480,252,975	473,726,635	953,979,610	746,080,456	0.0%	100.0%	56.1%	78.2%
7/1/2008	0	551,350,750	479,136,491	1,030,487,241	771,483,480	0.0%	100.0%	45.9%	74.9%
7/1/2009	0	643,596,537	470,962,769	1,114,559,306	710,626,855	0.0%	100.0%	14.2%	63.8%
7/1/2010	0	676,461,698	434,180,638	1,110,642,336	638,442,849	0.0%	94.4%	0.0%	57.5%
7/1/2011	0	706,522,146	438,073,986	1,144,596,132	641,360,079	0.0%	90.8%	0.0%	56.0%
7/1/2012	0	746,054,984	430,371,111	1,176,426,095	679,635,216	0.0%	91.1%	0.0%	57.8%

¹ Actuarial value of assets based on the smoothing techniques adopted by the Board. The June 30, 2012 market value of net assets available for benefits was approximately \$709,475,518.

SOLVENCY TEST

The City of Newport News Employees' Post-Retirement Benefit Fund funding objective is to be able to pay long-term benefit promises through contributions determined as a percent of salaries earned by members. In this way, City of Newport News in each year contributes towards post-retirement service accrued in that year by Post-Retirement Benefit Fund members.

If the post-retirement benefit follows level percentage of pay contribution rate financing principles, the system will pay all promised benefits when due – the ultimate test of financial soundness.

A short-term solvency test is one means of checking Newport News Post-Retirement Benefit Fund's funding progress. In a short-term solvency test, the Post-Retirement Benefit Fund's present valuation assets are compared with: 1) active member contributions on deposit, 2) the liabilities for future benefits to persons who have retired and the liabilities for terminated employees with vested benefits, and 3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing for many years; the liabilities for future benefits for terminated employees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be at least partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time; however, a decrease generally occurs in those years when substantial benefit improvements are granted, when full recommended contributions have not been made, or when they are actuarial experience losses. The funded ratio of the System based on total actuarial accrued liabilities (1+2+3) provides an indication of how well the System is funded.

The schedule below illustrates the progress of funding the accrued actuarial liabilities of City of Newport News Post-Retirement Benefit Fund.

CITY OF NEWPORT NEWS
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

SOLVENCY TEST

Actuarial Accrued Liabilities and Valuation Assets						Portion of Actuarial Accrued Liabilities Covered by Reported Assets			
Date	Active Member Contributions (Liability 1)	Retirees, Beneficiaries and Terminated Vested Members (Liability 2)	Employer Financed Portion of Active Members (Liability 3)	NNERF Total Liability (1+2+3)	Reported Assets	(1)	(2)	(3)	Funding Ratio of Total Accrued Actuarial Liabilities
7/1/2006	\$ 0	\$211,248,857	\$192,924,968	\$404,173,825	\$12,700,199	0.0%	6.0%	0.0%	3.1%
7/1/2007	0	192,927,244	181,803,227	374,730,471	15,921,641	0.0%	8.3%	0.0%	4.2%
7/1/2008	0	205,514,933	168,627,135	374,142,068	11,623,152	0.0%	5.7%	0.0%	3.1%
7/1/2009 ¹	0	138,639,954	76,738,785	215,378,739	6,474,557	0.0%	4.7%	0.0%	3.0%
7/1/2010	0	152,823,435	84,542,368	237,365,803	10,380,906	0.0%	6.8%	0.0%	4.4%
7/1/2011	0	152,189,938	79,767,965	231,957,903	14,135,113	0.0%	9.3%	0.0%	6.1%
7/1/2012	0	137,239,286	79,683,390	216,922,676	15,580,683	0.0%	11.4%	0.0%	7.2%

¹ The School Board split off from the City's plan effective 7/1/2009. The results shown from 7/1/2009 and forward are the city only.

GASB 43 was effective beginning July 1, 2006, therefore only seven years of funding progress is available.

CITY OF NEWPORT NEWS
EMPLOYEES' RETIREMENT FUND ACTUARIAL VALUATION AS OF JULY 1, 2012
JULY 1, 2012 POSTRETIREMENT BENEFIT VALUATION

ANALYSIS OF FINANCIAL EXPERIENCE

**NNERF TOTAL
ANALYSIS OF FINANCIAL EXPERIENCE**

**Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience
Gain (or Loss) for Year ending June 30,
(expressed in thousands)**

Type of Activity	2010	2011	2012
Investment Income on Actuarial Assets	\$ (93,948)	\$ (15,893)	\$ 17,074
Combined Liability Experience	<u>21,564</u>	<u>7,639</u>	<u>8,088</u>
(Loss)/Gain During Year from Financial Experience	\$ (72,384)	\$ (8,254)	\$ 25,162
Non-Recurring Items	<u>27,540</u>	<u>0</u>	<u>0</u>
Composite Gain (or Loss) During Year	\$ (44,844)	\$ (8,254)	\$ 25,162

**POSTRETIREMENT BENEFIT PLAN
ANALYSIS OF FINANCIAL EXPERIENCE**

**Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience
Gain (or Loss) for Year ending June 30,
(expressed in thousands)**

Type of Activity	2010	2011	2012
Investment Income on Actuarial Assets	\$ 608	\$ 671	\$ (1,330)
Combined Liability Experience	<u>16,829</u>	<u>10,602</u>	<u>20,260</u>
(Loss)/Gain During Year from Financial Experience	\$ 17,437	\$ 11,273	\$ 18,930
Non-Recurring Items	<u>796</u>	<u>0</u>	<u>0</u>
Composite Gain (or Loss) During Year	\$ 18,233	\$ 11,273	\$ 18,930

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

STATISTICAL SECTION

About the Statistical Section

The statistical section is intended to provide trend data affecting the Plan, including financial and operating trend information.

Contents

Schedule of History of Membership provides demographic and operating information regarding the Plan's employee membership.

Schedule of Change in Net Assets is intended to provide historical trend data focused on the Plan's financial activity.

Schedule of Benefit Deductions from Net Assets by Type provides historical financial information on benefits paid to Plan participants.

Schedule of Retired Members by Type of Fringe Benefit identifies the historical range of benefit payments made to retirees sorted by type of retirement.

Schedule of Average Fringe Benefit Payments presents the historical average monthly benefit paid.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

STATISTICAL SECTION

**History of Membership
Year Ended June 30**

PENSION		History of Membership in Retirement Fund								
Group	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Employees	2,986	3,046	3,153	3,364	3,336	3,279	3,151	3,683	2,830	2,806
City Police & Fire	1,860	1,892	1,923	1,726	1,703	1,630	1,565	1,785	1,418	1,371
Public Utilities	594	609	608	612	617	609	609	675	581	584
School VRS	5,920	6,085	6,262	6,574	6,510	6,339	6,004	7,211	5,364	5,125
School Non-VRS	1,705	1,782	1,821	1,965	1,868	1,804	1,819	2,172	1,634	1,677
Total	13,065	13,414	13,767	14,241	14,034	13,661	13,148	15,526	11,827	11,563

OPEB		History of Membership in Retirement Fund								
Group	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City Employees	4,595	4,825	4,999	5,324	5,159	5,052	-	-	-	-
School Employees	-	-	-	7,918	6,684	6,626	-	-	-	-
Total	4,595	4,825	4,999	13,242	11,843	11,678	-	-	-	-

Note: FY 2003-2006 is prior to the implementation of GASB 43. Newport News Schools separated from the City's OPEB Fund effective July 1, 2009.

NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)

STATISTICAL SECTION

Changes in Net Assets
(in million dollars)
Year Ended June 30

PENSION	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Beginning of Year	\$ 732.8	\$ 631.4	\$ 600.1	\$ 767.9	\$ 821.4	\$ 728.7	\$ 697.9	\$ 655.9	\$ 582.1	\$ 579.9
Additions:										
Contribution Payment	33.3	27.9	22.5	22.5	19.6	15.2	21.5	16.0	14.4	13.3
Interest and Dividends Income	13.7	21.4	14.1	17.9	28.3	22.8	18.4	14.5	12.2	12.9
Net Appreciate/(Depreciation)	(4.5)	114.4	53.9	(157.2)	(47.5)	97.9	52.6	54.4	85.5	9.2
Investment expenses	(4.3)	(4.1)	(3.7)	(2.6)	(10.6)	(4.4)	(3.0)	(3.5)	(3.1)	(2.7)
Total Additions	38.2	159.6	86.8	(119.4)	(10.2)	131.5	89.5	81.4	109.0	32.7
Deductions:										
Benefit Payments										
Recurring Monthly Benefits	60.7	57.4	54.5	47.3	42.4	38.0	45.2	38.7	34.6	29.9
Lump sum Death Benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenses										
Professional	0.3	0.2	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.2
Administrative	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Total Deductions	61.6	58.2	55.5	48.4	43.3	38.8	46.0	39.4	35.2	30.5
Change in Net Assets	(23.4)	101.4	31.3	(167.9)	(53.6)	92.6	43.4	41.9	73.7	2.1
End of Year	\$ 709.4	\$ 732.8	\$ 631.4	\$ 600.1	\$ 767.9	\$ 821.4	\$ 741.4	\$ 697.9	\$ 655.9	\$ 582.1

OPEB	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Beginning of Year	\$ 14.1	\$ 10.4	\$ 8.1	\$ 11.6	\$ 15.9	\$ 12.7	\$ -	\$ -	\$ -	\$ -
Additions:										
Contribution Payment	10.9	11.8	12.1	12.4	9.9	12.6	-	-	-	-
Interest and Dividends Income	0.2	0.1	0.2	0.3	0.3	0.3	-	-	-	-
Net Appreciate/(Depreciation)	(0.3)	1.5	1.2	(2.8)	(2.0)	2.4	-	-	-	-
Investment expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	-	-	-	-
Total Additions	10.7	13.3	13.4	9.8	8.1	15.2	-	-	-	-
Deductions:										
Benefit Payments										
Recurring Monthly Benefits	9.3	9.6	9.4	13.2	12.3	12.0	-	-	-	-
Expenses										
Professional	-	-	0.1	-	0.1	-	-	-	-	-
Administrative	-	-	-	0.1	-	-	-	-	-	-
Cash Distribution to NNPS	-	-	1.6	-	-	-	-	-	-	-
Total Deductions	9.3	9.6	11.1	13.3	12.4	12.0	-	-	-	-
Change in Net Assets	1.4	3.7	2.3	(3.6)	(4.4)	3.1	-	-	-	-
End of Year	\$ 15.5	\$ 14.1	\$ 10.4	\$ 8.1	\$ 11.6	\$ 15.9	\$ -	\$ -	\$ -	\$ -

Note: Prior to the implementation of GASB 43 in FY 2007, OPEB in prior years was not required to be separately reported.
Newport News Schools separated from the City's OPEB Fund effective July 1, 2009.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

STATISTICAL SECTION

**Benefit Deductions from Net Assets by Type
(in million dollars)
Year Ended June 30**

PENSION	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Age and Service Benefits:										
Retirees and Dependents	\$59,649	\$56,250	\$53,583	\$46,503	\$41,569	\$37,180	\$32,861	\$28,870	\$25,443	\$22,732
Death Benefits:										
Dependents - duty	68	69	67	65	57	50	49	48	47	59
Dependents - nonduty	29	22	17	36	41	66	47	45	29	24
Disability Benefits:										
Retirees - duty	278	252	254	224	225	242	223	238	236	293
Retirees - nonduty	728	682	674	659	625	581	515	512	487	444
Insurance Benefits:										
Retirees and Dependents	-	-	-	-	-	-	11,427	9,047	8,144	6,425
Cash distribution to NNPS	-	-	-	-	-	-	-	-	-	-
Portability Transfers:										
Employees	27	212	-	-	23	14	181	21	310	21
Total Benefits	\$60,779	\$57,487	\$54,595	\$47,487	\$42,540	\$38,133	\$45,303	\$38,781	\$34,696	\$29,998

OPEB	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Insurance Benefits:										
Health	8,445	8,790	8,616	11,721	10,540	9,886	-	-	-	-
Dental	500	504	488	830	750	696	-	-	-	-
Life	346	341	335	697	1,020	1,402	-	-	-	-
Total Insurances	9,291	9,635	9,439	13,248	12,310	11,984	-	-	-	-
Cash Distribution to NNPS	-	-	1,588	-	-	-	-	-	-	-
Total Benefits	\$9,291	\$9,635	\$11,027	\$13,248	\$12,310	\$11,984	-	-	-	-

Note: Prior to the implementation of GASB 43 in FY 2007, OPEB in prior years was not required to be separately reported.
Newport News Schools separated from the City's OPEB Fund effective July 1, 2009.

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

STATISTICAL SECTION

**Retired Members by Type of Fringe Benefit
Year Ended June 30, 2012**

Amount of Monthly Fringe Benefit	Number of Retired Members	Type of Fringe		
		Health	Dental	Life
\$ 1 - \$ 250	4,205	1,124	1,373	1,708
251 - 500	1,339	1,339	-	-
501 - 750	44	44	-	-
751 - 1,000	145	145	-	-
1,001 - 1,250	96	96	-	-
1,251 - 1,500	0	-	-	-
1,501 - 1,750	0	-	-	-
1,751 - 2,000	0	-	-	-
Over \$2,000	0	-	-	-
Total	5,829	2,748	1,373	1,708

**Retired Members by Type of Fringe Benefit
Year Ended June 30, 2011**

Amount of Monthly Fringe Benefit	Number of Retired Members	Type of Fringe		
		Health	Dental	Life
\$ 1 - \$ 250	4,096	1,054	1,354	1,688
251 - 500	1,338	1,338	-	-
501 - 750	43	43	-	-
751 - 1,000	166	166	-	-
1,001 - 1,250	115	115	-	-
1,251 - 1,500	-	-	-	-
1,501 - 1,750	-	-	-	-
1,751 - 2,000	-	-	-	-
Over \$2,000	-	-	-	-
Total	5,758	2,716	1,354	1,688

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(PENSION TRUST FUNDS OF NEWPORT NEWS, VIRGINIA)**

STATISTICAL SECTION

**Average Fringe Benefit Payments
Fiscal Year Ended June 30**

	Years Credited Service						
Retirement Effective Dates	0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/11 to 6/30/12							
Average monthly fringe benefit	\$ 114	\$ 78	\$ 81	\$ 79	\$ 103	\$ 149	\$ 163
Average final fringe	\$ 1,367	\$ 939	\$ 974	\$ 945	\$ 1,241	\$ 1,782	\$ 1,960
Number of retired members	364	291	435	598	794	1416	1931
Period 7/1/10 to 6/30/11							
Average monthly fringe benefit	\$ 116	\$ 82	\$ 84	\$ 85	\$ 113	\$ 160	\$ 168
Average final fringe	\$ 1,386	\$ 985	\$ 1,012	\$ 1,023	\$ 1,361	\$ 1,921	\$ 2,014
Number of retired members	357	294	440	586	787	1,398	1,896
Period 7/1/09 to 6/30/10							
Average monthly fringe benefit	\$ 112	\$ 84	\$ 85	\$ 87	\$ 113	\$ 159	\$ 167
Average final fringe	\$ 1,346	\$ 1,003	\$ 1,024	\$ 1,044	\$ 1,355	\$ 1,904	\$ 2,006
Number of retired members	338	287	434	567	763	1,324	1,825
Period 7/1/08 to 6/30/09							
Average monthly fringe benefit	\$ 134	\$ 109	\$ 102	\$ 106	\$ 125	\$ 176	\$ 189
Average final fringe	\$ 1,603	\$ 1,312	\$ 1,223	\$ 1,275	\$ 1,495	\$ 2,109	\$ 2,270
Number of retired members	315	304	405	529	693	1,190	1,570
Period 7/1/07 to 6/30/08							
Average monthly fringe benefit	\$ 186	\$ 160	\$ 153	\$ 159	\$ 185	\$ 238	\$ 256
Average final fringe	\$ 2,234	\$ 1,918	\$ 1,841	\$ 1,902	\$ 2,218	\$ 2,852	\$ 3,068
Number of retired members	248	254	305	425	539	921	1,183
Period 7/1/06 to 6/30/07							
Average monthly fringe benefit	\$ 186	\$ 162	\$ 153	\$ 158	\$ 184	\$ 232	\$ 247
Average final fringe	\$ 2,234	\$ 1,942	\$ 1,837	\$ 1,891	\$ 2,208	\$ 2,778	\$ 2,964
Number of retired members	248	248	291	403	500	828	1,023

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2012

DEPARTMENT OF FINANCE
2400 WASHINGTON AVENUE | NEWPORT NEWS, VIRGINIA 23607

CITY OF NEWPORT NEWS, VIRGINIA

